



U.S. Software

The Q4 Off-Cycle Earnings Guide

Expecting Strong Fundamentals – Calling Stocks Will Be Tougher: We expect a continuation of the strong Q4 earnings season for our off-cycle names, which are mostly in the structural growth camp. The tougher part will be to gauge how the individual stocks will react to certain beat and raise magnitudes. We favor a contrarian approach here and highlight SPLK, CRM and PLAN as names we like (see below). We expect healthy beats for MDB and Elastic, but fear the typical conservative guidance approach from both will be a limiting factor. We think there are too many moving parts around VMware to see Q4 results as a positive catalyst.

VAR Survey Looks Bullish: Our VAR survey (later in this report) focuses on CRM, SPLK and VMW, and highlights increasing optimism. Short-term questions were better with larger-than-expected Q4 results, bigger deals, and less discounting. For the medium/long term, the survey responses were also more positive. For CRM, we liked the high interest in Slack. SPLK saw healthy interest for its observability story, which bodes well for the coming year given that it is a relatively new product in the market.

Names We Like into the Print:

- **Splunk (OW)** – We expect a proper comeback quarter here. The company indicated at our December conference that some of the slipped Q3 deals might be back in Q4, and hence, should help the quarter, but our VAR checks also looked better. We see the SolarWinds attack as a catalyst for significantly increased spending around SIEM (security event management), and our channel conversations suggest that a lot of this extra spending went towards Splunk as the market leader. Lastly, investor interest is very low post Q3, which sets the shares up well, in our view.
- **Salesforce (OW)** – Like every other Q4, CRM will benefit from the compounding effect of more customers co-termining their renewals, which creates an optically better billings number. In addition, our VAR survey shows better quarter-end performance and increasing optimism in the outlook, including the opportunity to upsell Slack into the installed base.
- **Anaplan (EW)** – This will be the first of several quarters with much easier comps. Q4 FY21 billings consensus assumes only 21% YoY growth (27% in Q3), despite much easier comps (25% in Q4 FY20 vs 59% in Q3 FY20). Our conversations also show little investor focus for this name, again creating a favorable set-up.

Names We Are Cautious on into the Print:

- **VMware (OW)** – VMware is not overly expensive and we like the long-term story, but Q4 is unlikely the quarter for a major catalyst. We expect a small beat, but don't see a lot of room for guidance upside compared to current consensus. In addition, the CEO transition will be an overhang.

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 40.

INDUSTRY UPDATE

U.S. Software

POSITIVE

Unchanged

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

U.S. Software

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Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	17-Feb-21	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
U.S. Software	Pos	Pos										
Anaplan, Inc. (PLAN)	EW	EW	83.47	71.00	80.00	13	-0.35	-0.35	-	-0.30	-0.30	-
Cloudera, Inc. (CLDR)	EW	EW	18.49	14.00	19.00	36	0.41	0.41	-	0.50	0.54	8
Intuit Inc. (INTU)	OW	OW	415.81	455.00	480.00	5	7.86	7.86	-	8.40	8.39	0
Open Text Corp. (OTEX)	OW	OW	46.91	55.00	55.00	-	3.23	3.20	-1	3.40	3.37	-1
Workday Inc. (WDAY)	EW	EW	271.05	255.00	278.00	9	2.70	2.70	-	2.73	2.73	-

Source: Barclays Research. Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.

FY1(E): Current fiscal year estimates by Barclays Research. FY2(E): Next fiscal year estimates by Barclays Research.

Stock Rating: OW: Overweight; EW: Equal Weight; UW: Underweight; RS: Rating Suspended

Industry View: Pos: Positive; Neu: Neutral; Neg: Negative

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VALUATION

FIGURE 1

Valuation Table

Category	Company	Rating	Current price	Price target	Market Cap USD (\$,mn)	P/E		EV/Sales		EV/FCF	
						2021E	2022E	2021E	2022E	2021E	2022E
Large cap	Intuit	OW	415.39	480	115,137	45.7x	39.5x	11.9x	10.8x	39.4x	34.5x
	Microsoft	OW	243.79	269	1,864,994	30.8x	26.1x	10.3x	9.1x	30.5x	26.7x
	Oracle	EW	62.07	66	189,065	13.3x	12.0x	5.4x	5.2x	14.0x	12.1x
	SAP	OW	128.68	162	151,842	23.2x	21.8x	6.0x	5.6x	34.6x	33.6x
Enterprise SaaS	Anaplan	EW	82.99	80	13,193	nm	nm	23.8x	18.6x	nm	nm
	Appian	UW	216.65	83	16,314	nm	nm	45.8x	39.2x	nm	nm
	BigCommerce	EW	68.63	67	5,810	0.0x	nm	31.6x	25.9x	nm	nm
	Ceridian	EW	96.19	108	15,061	nm	nm	16.7x	14.0x	nm	nm
	Coupa	EW	369.92	352	28,995	nm	nm	45.0x	35.7x	nm	nm
	Cornerstone	OW	52.50	60	3,670	26.0x	20.4x	5.7x	5.0x	24.3x	17.9x
	Descartes	EW	60.97	59	5,201	56.3x	50.3x	14.1x	12.8x	41.5x	36.8x
	Five9	EW	182.33	182	13,128	nm	nm	26.0x	22.1x	nm	nm
	Lightspeed POS	OW	73.63	92	8,539	nm	nm	40.1x	24.5x	nm	nm
	LivePerson	OW	68.18	75	5,053	nm	nm	11.1x	9.0x	nm	nm
	Paycom	EW	401.55	468	23,497	94.5x	71.8x	23.2x	18.9x	nm	89.8x
	Pegasystems	EW	143.11	138	12,645	nm	81.0x	10.4x	8.5x	nm	72.4x
	Salesforce	OW	247.01	276	236,964	69.7x	57.7x	9.1x	7.6x	44.5x	35.2x
	ServiceNow	OW	575.80	655	119,683	nm	86.4x	20.6x	16.7x	68.1x	52.7x
	Slack	EW	43.24	36	26,422	nm	nm	23.3x	18.4x	nm	nm
	Sprout Social	OW	76.50	68	4,205	nm	nm	25.2x	19.8x	nm	nm
	Workday	EW	272.79	278	69,337	nm	79.4x	13.9x	11.7x	85.4x	65.6x
	ZoomInfo	EW	55.32	49	22,183	nm	97.3x	37.5x	29.6x	nm	75.4x
Big Data	Cloudera	EW	18.33	19	6,582	34.4x	26.5x	6.3x	5.7x	42.8x	32.6x
	Elastic	OW	158.74	175	16,573	nm	nm	23.3x	18.0x	nm	nm
	MongoDB	OW	402.50	435	28,503	nm	nm	38.9x	27.2x	nm	nm
	Snowflake	EW	289.78	295	72,806	nm	nm	66.6x	41.2x	nm	nm
	Splunk	OW	166.65	220	28,860	nm	nm	11.9x	9.7x	43.2x	30.5x
	Talend	OW	55.91	66	1,925	nm	nm	6.0x	5.1x	nm	nm
Infrastructure	Teradata	UW	47.32	24	5,407	30.2x	28.0x	2.8x	2.7x	21.2x	19.5x
	Avaya	OW	30.11	35	2,627	9.1x	8.3x	1.6x	1.6x	24.7x	15.2x
	AudioCodes	EW	29.92	34	1,017	20.5x	18.4x	3.7x	3.3x	17.2x	14.7x
	Citrix	OW	132.09	169	16,625	20.8x	17.5x	5.2x	4.8x	14.7x	13.5x
	Datadog	OW	106.40	135	34,854	nm	nm	42.4x	31.5x	nm	nm
	Dynatrace	OW	52.99	60	15,326	83.8x	66.9x	18.3x	14.4x	60.0x	46.4x
	Jamf	EW	38.74	42	4,812	nm	nm	14.3x	11.8x	73.7x	59.0x
	New Relic	UW	64.30	54	4,132	nm	nm	5.4x	4.8x	90.9x	51.1x
	Open Text	OW	46.83	55	13,013	14.7x	13.9x	4.5x	4.2x	15.5x	15.2x
	SolarWinds	UW	15.98	14	5,118	15.9x	14.1x	6.1x	5.6x	14.2x	12.5x
	VMware	OW	142.49	180	62,477	21.0x	18.0x	5.1x	4.6x	16.9x	14.4x

Source: Barclays Research

* Price as of Market Close on 2/18/20

ANAPLAN (EW/POS, PT \$80)

Billings Set-Up Leaves Plenty of Upside

Anaplan is on the road to recovery and has a few tailwinds at its back, which we think will show up in results – (1) easier comps in Q4 and Q1; (2) a better IT spending environment; and (3) the hiring of a CRO that should re-invigorate larger enterprise deals. Anaplan guided to Q4 billings growth of 20-21% on a YoY basis, but this is against a relatively easy comparable from last year (Q4FY20 billings growth decelerated to 25% vs. an average of 54% the previous three quarters). Q1 has a similar set-up, where we view consensus estimates to be too conservative based on improving conditions and an easy comp (Barclays is looking for +34% YoY growth vs. consensus of 28%). Finally, FX (USD to GBP) during the fiscal quarter was down 6%, creating some drag to billings. Overall, we think that Anaplan has a favorable set-up going into earnings. We maintain our EW rating, but increase our PT to \$80 (from \$71) based on 18x CY22E sales (from 16x).

- **Billings Growth / Beat is the Main KPI:** Consensus billings estimate of 21% y/y growth in Q4 is slightly above guidance, but we still view it as conservative given that the software spending environment has gotten better and Anaplan faces an easy comparable from the previous year (missed consensus estimates by 15% last year). In addition, consensus is looking for Q1 billings to grow 28% y/y on a relatively easy comparable (10% growth last year due to COVID-19). Estimates look achievable here, and we expect a stronger spending environment coupled with larger enterprise deals, should create a demand tailwind as well.
- **Look for Net Expansion Rate to Increase:** After 4 quarters of net expansion rate deceleration, we think that top-line growth will carry through to the net expansion rate number. Consensus is looking for a net expansion rate of 116.5% in Q4, an improvement from the 113% KPI reported in the previous quarter. While we don't view this as a bogey, we do think that it is important for Anaplan to signal that Q3 was the trough and continue to show improvement.
- **Top-Line Beat to Flow Down to Margins:** PLAN guided for positive quarterly FCF exiting the year, but we believe that investors are focused on revenue and billings for now and a marginal miss here is unlikely to be a negative for the stock. Consensus is looking for FCF margins to improve in FY22 to approximately break-even, but this will also be a moving target based on top-line guidance.

FIGURE 2

Barclays Research vs. Consensus Estimates – Anaplan

\$, mn	Barclays	Consensus	Difference	Barclays	Consensus	Difference
	4Q 21	4Q 21	vs. cons.	1Q 22	1Q 22	vs. cons.
Billings	152.2	153.4	(1)%	128.8	123.1	5%
<i>y/y growth</i>	20%	21%		34%	28%	
Subscription	109.1	110.9	(2)%	113.1	116.6	(3)%
Service	10.0	9.1	10%	11.0	10.2	8%
Total Revenue	119.2	119.4	(0)%	124.1	126.9	(2)%
<i>y/y growth</i>	21%	22%		20%	22%	
Gross profit, non-GAAP	89.9	92.1	(2)%	94.4	98.4	(4)%
% margin	75.4%	77.1%		76.1%	77.6%	
Operating profit, adjusted	(13.2)	(12.9)	(2)%	(16.0)	(12.6)	nm
% margin	(11.1)%	(10.8)%		(12.9)%	(9.9)%	
Net income, adjusted	(14.0)	(13.6)	(3)%	(16.9)	(13.8)	nm
EPS, adjusted	(0.10)	(0.10)	nm	(0.12)	(0.09)	nm

Source: Barclays Research, Bloomberg

CLOUDERA (EW/POS, PT \$19)

Short-Term Expectations Low, but Rising Valuation Means CDP Penetration Needs To Play Out

Management has done a good job of managing expectations over the past few quarters; i.e., results have largely been met consensus forecasts. This has led to a re-rating of the stock (over the last year the stock price is up 66% vs. S&P 500 +16%). A similar theme should play out this quarter, as consensus is only looking for 1% sequential improvement in Q4 subscription revenue versus the 9% Cloudera reported last year. With the possibility of a takeout now behind us, attention will likely turn to CDP, and we think that management will start to provide some metrics around CDP adoption and penetration rates. With CDP Private Cloud and Public Cloud still early in the adoption cycle, positive penetration rate updates should suffice for now in lieu of positive estimate revisions. Hence, we think that the quarter is fairly de-risked, but the strong share price performance over the past year leaves limited room for upside. We reiterate our Equal Weight rating but increase our PT to \$19 PT (from \$14) based on 6x CY22 Revenue of \$1.1bn (from 4x CY22 Sales).

- **Subscription Revenue Guidance Too Low:** Cloudera's subscription revenue guidance (\$199-202mn) and consensus of \$200mn imply a 1% sequential increase (vs. 9% last year). With Q4 a seasonally strong quarter, we expect Cloudera to handily beat these numbers.
- **Expecting Muted FY22 Revenue Guidance:** We expect FY22 ARR guidance of around 12%, similar to where Cloudera has reported through FY21. Breaking this down, Cloudera's net expansion is around 108-109% and new customers should contribute 2-3 percentage points. Subscription revenue should start to align closer to ARR growth in FY22, as purchase price accounting gives, at most, a \$24mn benefit in FY22, versus the ~\$38mn we saw in FY21.
- **Cloud Product Still in Infancy:** Our Web traffic report (*Raimo's Trend Spotter - Tracking Momentum Changes with Web Traffic Data*, 1/22/21) showed that traffic to Cloudera's cloud login page is still in its infancy, as traffic looked fairly muted in CQ4 with logins down 4% sequentially.

FIGURE 3
Barclays Research vs. Consensus Estimates – Cloudera

\$, mn	Barclays	Consensus	Difference	Barclays	Consensus	Difference
	4Q21E	4Q21E		1Q22E	1Q22E	
Subscription Revenue	201.3	200.0	0.7%	209.4	205.0	2.1%
Total Revenue	221.2	221.5	(0.1)%	235.1	227.7	3.2%
Gross profit, adjusted	182.3	183.5	(0.6)%	189.4	184.3	2.7%
% margin	82.4%	82.8%		80.6%	81.0%	
Operating profit, adjusted	36.3	37.5	(3.3)%	28.5	32.2	(11.6)%
% margin	16.4%	16.9%		12.1%	14.2%	
Net income, adjusted	36.3	36.1	0.5%	28.2	30.8	(8.3)%
EPS, adjusted (\$)	0.11	0.11	2.1%	0.09	0.10	(12.9)%

Source: Barclays Research, Bloomberg

COUPA (EW/POS, PT \$352)

Conservative Billings Guide Sets-up Another Large Beat

Investors understand Coupa is typically very conservative when it comes to guidance, as historically it beats consensus numbers by an average of 18%. Coupa has guided for billings growth to decelerate from Q3, which is no surprise, but implied only ~9% y/y growth after adjusting for acquisitions. The company delivered nearly 30% organic billings growth in an impressive Q3, and we see another double-digit beat as the IT environment for complex software solutions continues to improve. However, the buy-side has likely accounted for this, and with Coupa's stock price up 110% in the last year (vs. S&P 500 +15%), there is limited upside potential going into the print. We continue to like the LT Coupa story and its large TAM, but are cautious due to valuation. Hence, we remain Equal Weight.

- **LLamasoft Adds Top-line Contribution and Gross Margin Headwind:** Coupa's acquisition of Llamasoft closed in Q4 and its contribution is included in management's guidance. In the quarter, Llamasoft is expected to contribute about \$5.5mn to subscription revenue, \$7.5mn to services revenue and \$22-24mn to total billings. Additionally, the company expects a GM drag for the first several quarters, as it realizes the full costs of the business in the short term and experiences a write-down of deferred revenue. Management guided Q4 non-GAAP operating margin in the range of 67-68%, down from 72.5% in Q3. However, this seems reasonable considering Llamasoft's lower GM profile due to its higher professional services mix, in addition to the above factors.
- **Inorganic Uplift Exacerbates Typical Conservative Billings Guide:** Company guidance of TTM y/y billings growth of ~27% implies 4Q21 sequential billings growth of ~60%, and ~24% growth y/y. Optically, this looks like the usual billings set-up as Q4 is the company's strongest billings quarter, growing 76% sequentially, on average, over the past three years. However, guidance implies only ~44% q/q growth (9.2% y/y) after adjusting for acquisitions. This makes the guidance appear more conservative than normal, on an organic basis. Coupa grew organic billings ~30% y/y in Q3, and we see a better spend environment in Q4. Organic billings growth of 30% this quarter implies sequential growth of ~72%, which is consistent with the three-year average and would result in a billings beat of ~16.5%.

FIGURE 4
Barclays Research vs. Consensus Estimates – Coupa

\$, mn	Barclays	Consensus	Difference	Barclays	Consensus	Difference
	4Q 21	4Q 21		1Q22	1Q22	
Billings	223.9	224.5	(0)%	139.6	133.5	5%
y/y growth	24%	24%		37%	31%	
Subscription	125.0	125.7	(1)%	125.4	130.3	(4)%
Services	20.5	19.1	7%	18.9	18.7	1%
Total Revenue	145.5	146.0	(0)%	144.3	148.9	(3)%
y/y growth	31%	31%		21%	25%	
Gross profit, non-GAAP	97.5	99.1	(2)%	95.9	102.1	(6)%
% margin	67.1%	67.9%		66.5%	68.5%	
Operating profit, adjusted	(6.6)	(6.7)	(1)%	0.7	(2.0)	nm
% margin	(4.5)%	(4.6)%		0.5%	(1.3)%	
Net income, adjusted	(8.3)	(8.1)	nm	(2.3)	(1.8)	nm
EPS, adjusted	(0.12)	(0.10)	nm	(0.03)	(0.02)	nm

Source: Barclays Research, Bloomberg

DESCARTES SYSTEMS (EW/POS, PT \$59)

Not Much Wiggle Room, Barring Bigger Macro Rebound

Descartes saw a fuller rebound in Q3 and noted that many of its business lines were back to pre-pandemic levels. We believe that as geographies reopen more, trade improves, and the company executes on growth areas (e-commerce/digital compliance), Descartes could see a material top-line benefit in CY 2021. Unfortunately, we believe that this has been priced into consensus numbers (Q4 expected to be 108% of baseline revenue). Absent a positive top-line surprise from a better-than-expected rebound, upside might be capped by the valuation level (~37x CY22 FCF). We note, however, that management could raise the target EBITDA margin range given the recent beats. Even with this, the heightened expectations and valuation keep us on the sidelines, and we reiterate our EW rating.

- **Top-Line Expectations Are Fair at Best:** Consensus is expecting just over 2% sequential growth in total revenue, which is roughly in-line with the 5-year historical average for Q4. Despite this, consensus revenue is also 108% of the reported baseline revenue, which seems high to us (historically Q4 is ~106% of baseline). Thus, at first look, the expectations seem fair, but are bullish relative to visible and recurring revenue going into the quarter.
- **Eyes on EBITDA Target Range:** Descartes has reported EBITDA margin at the high end or above the target range of 35-40% throughout FY21. Typically, management likes to see a few quarters of consecutive outperformance before raising the range. Consensus expectations for Q4 call for another quarter above 40% margin. A raise in the target range would reflect long-term confidence in the business and should be a key point to watch.
- **Valuation Level Still Caps Upside:** Despite the potential for an improvement in global trade and growth vectors in e-commerce and digital compliance, we still think valuation is full. Descartes currently trades above 37x CY22 FCF, which we view as pricey compared to peers. For this reason, we see little meaningful upside even post a healthy print and remain on the sidelines.

FIGURE 5
Barclays Research vs. Consensus Estimates – Descartes

\$, mn	Barclays	Consensus	Difference	Barclays	Consensus	Difference
	4Q 21	4Q 21		1Q 22	1Q 22	
Services Revenue	78.5	79.2	(1)%	78.6	82.7	(5)%
Total Revenue	88.2	89.6	(2)%	88.2	92.1	(4)%
Gross profit, GAAP	65.4	66.4	(2)%	65.8	68.2	(3)%
% margin	74.2%	74.2%		74.7%	74.0%	
EBITDA adj.	34.7	36.9	(6)%	35.2	37.3	(6)%
% margin	39.3%	41.2%		39.9%	40.5%	
Net income, GAAP	12.6	13.6	(7)%	13.9	14.1	(2)%
EPS, GAAP	0.15	0.16	(8)%	0.16	0.17	(3)%
OCF	30.7	nm		30.3	nm	

Source: Barclays Research, Bloomberg

ELASTIC (OW/POS, PT \$175)

Expectations Rising, but Elastic Should Deliver

After Elastic beat consensus billings and revenue estimates by double-digits the past two quarters, expectations are rising and it is assumed that management guidance is conservative. Elastic posted average revenue growth of 43% the previous two quarters, but guided for fiscal Q3 to grow only 29% at the midpoint. After steady beats through this year, it is assumed that the heavy deceleration that management guided to is conservative. Results seen from other on-cycle software companies have also showed that the demand environment has improved sequentially. Elastic should continue to deliver as its SIEM and APM products are still in the early stages of adoption, but its rising valuation should moderate expectations around share price performance. The multiple has rerated since Elastic last reported earnings (was ~12x CY22 sales vs. 18x now), hence, we think that this earnings report will justify the multiple as opposed to re-rating it even higher. We reiterate our Overweight rating and PT of \$175.

- **Billings Deceleration Looks Conservative:** Consensus expectations for Q3 billings is \$154.5mn, or 26% growth on a YoY basis, versus +56% (cc) last year and 39% last quarter. Elastic faces a tough comp, so a double-digit beat is unlikely, but billings should be closer to 30-35% YoY growth. Similarly, consensus is looking for Q4 billings growth of only 22%, versus 55% (cc) growth last year.
- **FY1 FCF Headed Towards Break-Even:** Consensus is currently modelling FY21 FCF to be -\$6.8mn, or -1% FCF margin despite FY21 revenue growth of over 30%. We believe that this trend could reverse as revenue shifts towards SaaS and puts pressure on gross margins and cash flows.
- **Channel Checks Show Positive Cloud Data Points:** Elastic's unique traffic in the cloud grew an impressive +150% y/y for CQ4, an acceleration from the previous quarter. Elastic's enterprise search capabilities are likely helping its cloud segment. For a deeper look into web traffic data, see our detailed report - [Raimo's Trend Spotter - Tracking Momentum Changes with Web Traffic Data](#), 1/22/21.

FIGURE 6

Barclays Research vs. Consensus Estimates – Elastic

\$, mn	Barclays	Consensus	Difference	Barclays	Consensus	Difference
	3Q 21	3Q 21		4Q21	4Q21	
Billings	161.8	154.5	5%	213.2	212.8	0%
y/y growth	32%	26%		22%	22%	
Total Revenue	146.3	146.9	0%	151.5	151.8	0%
y/y growth	29%	30%		23%	23%	
Gross profit, non-GAAP	109.1	111.1	-2%	112.7	115.2	-2%
% margin	74.6%	75.7%		74.4%	75.9%	
Operating profit, adjusted	(11.6)	(11.6)	0%	(19.1)	(18.6)	-3%
% margin	-7.9%	-7.9%		-12.6%	-12.2%	
Net income, adjusted	(13.6)	(13.0)	-4%	(22.1)	(20.5)	-7%
EPS, adjusted	(0.15)	(0.15)	-2%	(0.24)	(0.22)	-9%

Source: Bloomberg, Barclays Research Estimates

INTUIT (OW/POS, PT \$480)

Growth Vectors Should Overshadow Tax Timeline Delay

Early last week, Intuit updated its guidance range due to a late start to the IRS tax filing processing season; the company will shift some revenue out of Q2 and into Q3. We see this as commonplace and mechanical, and outside of the noise here, there should be key insights around the growth drivers revealed in the Q2 print. First, this is the first quarter that the company reports the Credit Karma operating line. Progress here around revenue synergies and the recovery of the asset itself will likely dominate investor focus. Also, despite the moving parts around the deadline, an update on the tax season should serve to answer investor inquiries on the mix effects of ARPU levels and market share gains. Finally, with the start of a more fervent rebound in the macro environment, we believe that the Small Business and Self Employed segment could yield positive signs for the upcoming year. We believe that these growth areas will bring attention away from the guidance update. Hence, we remain Overweight and raise our price target to \$480 (was \$455).

- **Credit Karma Debut in Focus:** Following the close of the Credit Karma acquisition in December, Q2 will be the first print with the segment included. The guided top-line contribution implies ~\$125mn in revenue for Q2 (vs. our modelled \$129mn). The progression and recovery of the Credit Karma asset, as we move to a new normal, will be a key discussion point for investors. It will be interesting to see the disclosures and KPIs given around the segment in the print and how those metrics are behaving relative to the trough of the pandemic.
- **Tax Commentary Could Address Question Marks:** With the success of TurboTax Live and the potential to sell to the Credit Karma base, analyst expectations are setting up toward the higher end of the 9-10% growth guided for the Consumer segment this FY. Early commentary around the traction of higher ARPU returns, like Live and filings with investment accounts, and success in cross-selling within Credit Karma could provide valuable insight, even despite the processing timeline being pushed back.
- **QuickBooks to Benefit from SMB Recovery:** There is evidence to suggest that a fuller recovery in the SMB landscape is on the horizon, with mounting vaccine efforts. Take for instance the 73% y/y growth in new business applications filed in the US in January (per US Census data). We recognize that a complete recovery may take some more time, but believe that there could be a confirmation of these positive trends in the Small Business and Self-Employed performance and KPIs.

FIGURE 7
Updated 2Q and FY21 Guide – Intuit

(\$, MNs)	Q2 FY21 Guide			FY 21 Guide	FY 21 Consensus
	Prior	Current	Midpoint Delta (\$)		
Revenue	1,935 to 1,965	1,570 to 1,575	-377.5	8,810 to 8,995	8,937.0
GAAP Operating Inc.	171 to 191	-35 to -25	-211.0	1,920 to 1,990	1,996.2
Adj. Operating Inc.	455 to 475	230 to 235	-232.5	2,975 to 3,045	3,027.0
EPS, GAAP	.43 to .49	.06 to .07	-0.40	5.30 to 5.50	5.75
EPS, Adj.	1.25 to 1.31	.67 to .68	-0.61	8.20 to 8.40	8.39

Source: Barclays Research, Bloomberg.

MONGODB (OW/POS, PT \$435)

HSD Q4 Beat and High-20s FY22 Growth Guidance are the Key Bogeys

We expect MongoDB to deliver well against expectations this quarter given the easiest comps for the year and a conservative sequential setup. Our investor conversations indicate a HSD beat for Q4 is the bogey to hit again given the company's track record of delivering healthy top-line beats (high-single digits to low-double digits in the last few quarters). The bigger focus will be on FY22 guidance, and given easier FY21 comps, some bulls may be hoping for >30% on initial revenue guidance. However, we expect management to remain prudent given the continued macro uncertainty and see high-20s initial revenue growth guidance as likely. Overall, we expect shares to react positively after the print.

- **Easiest Comps for the Year and Sequential Setup Shows Healthy Upside for Q4, High-20s FY22 Growth Guidance Likely:** We are modelling subscription revenue growth of 27% y/y this quarter vs. the 46% growth last year (easiest comp for the year). Our estimate implies 4% q/q growth vs. the historical average of 18%. While we recognize the higher q/q volatility in subscription revenue due to 606 adoption, we believe the meaningful delta vs. the historical average provides room for a healthy beat this quarter. For FY22, we note current consensus revenue of \$733mn implies 27.7% growth. We expect similar high-20s growth guidance on the actual FY21 number, and model FY22 revenue of \$747mn.
- **Continued Focus on Atlas Growth and Expansions:** We model \$79.1mn Atlas revenue this quarter, implying 56% y/y growth, down from 61% in Q3. We expect the direct channel to perform well again in the quarter, and self-serve expansions to be higher sequentially based on positive cloud consumption trends seen from Azure/AWS. We also highlight our latest web traffic data report (See "[Raimo's Trend Spotter - Tracking Momentum Changes with Web Traffic Data](#)", 1/22/21), with 38% growth in total Atlas visits and 26% growth in unique visitors.
- **Margin Expectations Should Be Beatable:** We are modelling operating margin of -14% this quarter vs. -10% last year. We expect the company to maintain its track record and beat expectations here based on the top-line beat and operating expense discipline.

FIGURE 8

Barclays Research vs. Consensus Estimates – MongoDB

\$, mn	Barclays	Consensus	Difference	Barclays	Consensus	Difference
	4Q21	4Q21		1Q22	1Q22	
Billings	204.5			177.4		
Subscription Revenue	150.2			163.9		
Service Revenue	6.1			6.3		
Total Revenue	156.2	156.7	(0.3)%	170.2	166.9	2.0%
Gross profit, adjusted	111.4	112.8	(1.2)%	120.3	120.6	(0.3)%
% margin	71.3%	72.0%		70.7%	72.3%	
Operating profit, adjusted	-21.4	-21.7	nm	-10.0	-15.3	nm
% margin	-13.7%	-13.9%		-5.8%	-9.2%	
Net income, adjusted	-23.6	-23.7	nm	-10.5	-16.5	nm
EPS, adjusted (\$)	(0.39)	(0.39)	nm	(0.17)	(0.27)	nm

Source: Barclays Research

SALESFORCE (OW/POS, PT \$276)

Conservative Q4 cRPO Expectations, with Modest Upside to FY22 Organic Growth Expectations

We expect CRM shares to continue the ytd momentum post a positive Q4 print based on conservative setups on cRPO and revenue, along with positive results from our latest VAR survey. Investor focus will also remain on the Slack deal and further commentary on the potential cross-sell opportunity with Slack. Here, we highlight the positive results from our VAR survey indicating healthy CRM customer interest in Slack. On FY22 guidance, we expect management to carry through some of the cRPO beat this quarter to next year's organic growth guidance. Overall, we see a clean beat and raise likely and shares to react well post the print.

- Healthy cRPO Beat Likely in the Biggest Renewal Quarter, Sequential Setup Points to Revenue Upside:** We highlight that consensus cRPO growth stands at 16.4% vs. 19.5% in Q3 and 20% (organic) in Q4 last year. We view Street expectations as conservative and highlight that the setup was similar last year when management also guided for 16% organic cRPO growth, and actually delivered 20%. As such, we expect ~19%+ cRPO growth is likely this quarter again. We also view consensus revenue growth of 17.1% y/y as achievable given the q/q growth delta vs. historical average (4.6% q/q growth vs. 6.1% average).
- Expect Modest Upside to FY22 Revenue Growth Guidance, Limited Upside to FY22 Consensus Operating Margin:** We note that consensus FY22 revenue stands at \$25.499bn or ~20.8% growth. Adjusted for the acquisitions, this would be 17.3% organic growth. We see some upside to organic growth expectations based on the actual cRPO beat in Q4. Also, consensus FY22 operating margin stands at 17.4% vs. our estimate of 17.2%. We expect declining margin for next year based on the moving parts from acquisitions and normalization in T&E spend, but expect management to comment on or potentially quantify continued underlying operating leverage for FY22.
- Latest VAR Survey Shows Positive Channel Performance:** Our latest VAR survey results (for January period-end) for Salesforce showed better-than-planned channel performance, with 100% of resellers noting at or above plan performance and 44% outperforming the plan by 6-10% (vs. 27% in the last survey). Expectations for next quarter also showed an uptick, with 56% of resellers looking for 10%+ growth vs. none last quarter. We were encouraged by the upticks in customer interest in Salesforce Platform and Integration Cloud, but note the downtick in Marketing Cloud and lack of customer interest in Tableau this quarter. We also note the positive inaugural result from our question on potential cross-sell opportunity with Slack, with 89% of VARs indicating moderate to significant interest among CRM customers looking to adopt or grow their footprint with Slack.

FIGURE 9

Barclays Research vs. Consensus Estimates – Salesforce

\$, mn	Barclays	Consensus	Difference	Barclays	Consensus	Difference
	4Q 21	4Q 21		1Q 22	1Q 22	
ST Bookings	7,770.2	7,839.0	(1)%	5,263.1	5,219.0	1%
cRPO	17,400.0	17,458.0	(0)%	16,965.0	16,959.0	0%
Billings	10,179.9			4,018.4		
Subscription Revenue	5,330.3	5,351.2	(0)%	5,370.4	5,376.4	(0)%
Services Revenue	339.8	335.8	1%	327.7	333.5	(2)%
Total Revenue	5,670.2	5,681.0	(0)%	5,698.1	5,718.0	(0)%
Gross profit, adjusted	4,492.8	4,467.1	1%	4,500.0	4,508.6	(0)%
% margin	79.2%	78.6%		79.0%	78.9%	
Operating profit, adjusted	960.3	951.3	1%	1,029.9	954.8	8%
% margin	16.9%	16.7%		18.1%	16.7%	
Net income, adjusted	702.2	710.5	(1)%	805.3	737.0	9%
EPS, adjusted	0.74	0.75	(1)%	0.84	0.76	11%

Source: Barclays Research, Bloomberg

SPLUNK (OW/POS, PT \$220)

Limited Perpetual Base Creates Tough Comp, but ARR Reset Means Estimates Are Achievable

Splunk has been in the penalty box since its Q3 earnings miss (*ARR Miss & LT Guidance Pull Puts Splunk in 'Time Out'*, 12/3/20), but Q4 earnings should work towards reversing some of the damage. Management is still guiding for ARR growth of 38% at the midpoint (no perpetual comparable help), and we believe that still places Splunk as one of the fastest growing companies in our space. We believe an improving IT spending environment, our VAR survey showing a sequential improvement in spending, and tempered buy-side expectations make Splunk an interesting play into earnings. As ARR growth stabilizes, investors should also start to see the other side of the cloud and billing transition, meaning Splunk will start to report positive FCF numbers in FY22 for the first time in 2 years. Hence, the ARR reset coupled with FCF generation should get investors excited about the story again. We reiterate our Overweight rating and our PT of \$220.

- **ARR Reset Makes Consensus Achievable:** The Street is looking for Q4 ARR of \$2.31bn, or 12% sequential growth versus an average of 16.5% over the previous two years. Said another way, the Street is looking for Splunk to add \$248mn in ARR, versus adding \$241mn in Q4 of last year. With limited perpetual bookings to lap, we do expect this Q4 to underperform the previous 2 years and consensus estimates reflect this properly.
- **Channel Checks Show Demand Improvement:** Our VAR survey (at the end of this report) showed that nearly 30% of resellers reported 15-30% y/y growth this quarter, versus only 11% in the prior survey. Cloud results also improved sequentially, with 55% of resellers showing 25-50% y/y growth, while the October survey showed only 33%. Similarly, resellers are more optimistic about the next quarter and around large deal sizes.
- **FY22 Will Bring OCF Back in Focus:** Consensus is modelling FY22 OCF to be \$191mn and FY23 to be \$657mn, versus our estimates of \$781mn and \$1bn, respectively. We believe that consensus is miss-modelling cash flows and street estimates will be revised higher as Splunk reports numbers through FY22.

FIGURE 10
Barclays Research vs. Consensus Estimates – Splunk

\$, mn	Barclays	Consensus	Difference	Barclays	Consensus	Difference
	4Q 21	4Q 21	vs. cons.	1Q 22	1Q 22	vs. cons.
Total ARR	2,318.4	2,313.7	0%	2,434.3	2,441.5	(0)%
y/y growth	38%	38%		37%	38%	
License	336.4	329.1	2%	133.5	137.8	(3)%
Maintenance + Services	181.8	175.2	n/a	180.8	179.0	n/a
Cloud Revenue	163.4	171.5	(5)%	183.8	200.2	(8)%
Total Revenue	681.6	676.6	1%	498.2	639.1	(22)%
Gross profit, non-GAAP	554.8	550.1	1%	360.6	481.0	(25)%
% margin	81.4%	81.3%		72.4%	75.3%	
Operating profit, adjusted	1.9	9.2	nm	(138.0)	(99.7)	nm
% margin	0.3%	1.4%		(27.7)%	(15.6)%	
Net income, adjusted	1.5	4.6	nm	(110.4)	(83.1)	nm
EPS, adjusted	0.01	0.03	nm	(0.68)	(0.51)	nm

Source: Barclays Research, Bloomberg

SNOWFLAKE (OW/POS, PT \$295)

All Signs Point to Better Consumption Demand

Snowflake's 2nd public quarter should be positive as calendar Q4 showed that cloud demand increased into year-end. GCP and Azure both saw YoY growth rates that accelerated in calendar Q4. The law of large numbers will prevent Snowflake from seeing product revenue growth accelerate in Q4, but it should outperform Street estimates. Investors should focus on the net expansion rate and on any RPO / cRPO metrics that management might provide. Net expansion rate should rebound from Q3 to mid-160% and RPO growth, which has been nearly 2x product revenue growth, should remain high on larger enterprise deals. Overall, we expect Q4 revenue to be 6-8% higher than consensus and for FY22 revenue guide to come in at ~\$1.1bn, in-line with consensus. We like Snowflake's business model and its technology moat, but maintain our Equal Weight rating based on its rich valuation.

- **Product Revenue of \$175mn is the Bogey:** Consensus estimates are showing Q4 product revenue growth to be +11% sequentially or \$166mn, compared to last year's growth of +19%. Put another way, the Street is looking for Snowflake to add \$16.8mn of new revenue, versus adding an average of \$22mn in the past three quarters. The buy-side is looking for Q4 product revenue of \$175mn, or 18% sequential growth. We believe that this is the base case and new large enterprise customers will be a positive wildcard for the numbers.
- **Web Traffic Data Backs up Our Bullish View:** Our web traffic data shows that unique visitors to Snowflake's login page increased around 58% on average for Q4, versus 50% in Q3. The underlying trends confirm to us that demand has increased and this should play out in the numbers. Talend, which helps to push data into Snowflake, reported cloud ARR growth of 101% (on YoY basis) and saw its Snowflake related business triple in FY20.

FIGURE 11

Research vs. Consensus Estimates – Snowflake

\$, mn	Barclays 4Q 21	Consensus 4Q 21	Difference vs. cons.	Barclays 1Q 22	Consensus 1Q 22	Difference vs. cons.
Product	165.2	166.1	(0)%	192.3	194.8	(1)%
Professional Services	12.4	12.0	4%	16.7	17.0	(2)%
Total Revenue	177.7	178.6	(0)%	209.0	212.8	(2)%
y/y growth	103%	104%		92%	96%	
Gross profit, non-GAAP	113.9	116.1	(2)%	133.3	140.2	(5)%
% margin	64.1%	65.0%		63.8%	65.9%	
Operating profit, adjusted	(54.0)	(53.6)	(1)%	(77.8)	(74.5)	(4)%
% margin	(30.4)%	(30.0)%		(37.2)%	(35.0)%	
Net income, adjusted	(52.5)	(51.6)	(2)%	(76.6)	(74.0)	(3)%
EPS, adjusted	(0.19)	(0.17)	(8)%	(0.27)	(0.25)	(8)%

Source: Barclays Research, Bloomberg

VMWARE (OW/POS, PT \$180)

Expect a Beat, Limited Upside to Consensus Looking Forward

We expect VMware to deliver well against Q4 expectations based on an achievable sequential setup and positive channel performance as shown in our latest VAR survey. However, we are not sure this is the quarter to get overly excited about given our expectations for a modest Q4 beat, along with limited upside to FY22 estimates. Lingering uncertainty around the macro and the departure of CEO Pat Gelsinger could also result in management remaining prudent around FY22 guidance. Hence, we do not think it is the time to play VMW, but still like the stock longer-term and view the current valuation as cheap in the context of the broader infrastructure software valuations.

- **Top-line Setup Looks Achievable:** The Street is modelling a 9% y/y decline in licenses vs. a 12% decline in 3Q21 and ~1% growth in Q4 of last year. We believe this is a reasonable expectation based on q/q growth expectations of 47% vs. the historical average of 45%, and do see some upside potential. We also see some upside to the consensus expectation of Subscription & SaaS top-line growth of 31%, which compares to 44% growth in Q3 and 51% in 4Q20, but we do note this will be the first quarter of organic y/y comps from CBLK. Consensus implies an 8% q/q increase compared to the historical average of 14%. Overall, estimates look reasonable to us and we expect a small beat from VMware in Q4.
- **Limited Upside to Q1 and FY22 Numbers:** Q1 consensus expectations imply a 1% y/y license decline, 28% growth for Subscription & SaaS, and overall top-line growth of ~7%. In our view, the setup leaves limited room for upside in what will be a difficult quarter in terms of comps. Street expectations for top-line growth of 9% in FY22 compares to management guidance given in Q3 of HSD growth and 8% growth in '21. Thus, we don't see an opportunity for numbers to move materially higher.
- **Sequential Uptick in Channel Performance:** Our latest VMware VAR survey results for FQ4 (ending January) showed a sequential uptick, albeit a more muted one than in the October quarter, with 82% of resellers noting in-line or better-than-expected performance this quarter (vs. 80% in the October-end survey). Expectations for next quarter ticked higher, with 64% of respondents expecting some growth (vs. 50% in the October survey). We also highlight another uptick in interest in VMware on AWS as well as a rebound in sentiment towards vSphere.

FIGURE 12

Barclays Research vs. Consensus Estimates – VMware

\$, m	Barclays	Consensus	Difference	Barclays	Consensus	Difference
	4Q21	4Q21		1Q22	1Q22	
License	950.2	937.7	1%	613.8	655.6	(6)%
Subscription & SaaS	711.7	728.1	(2)%	715.0	730.3	(2)%
Total Product	1,661.9	1,656.0	0%	1,328.8	1,351.1	(2)%
Maintenance + Services	1,562.1	1,576.0	(1)%	1,572.0	1,582.9	(1)%
Total Revenue	3,224.0	3,232.0	(0)%	2,900.8	2,934.0	(1)%
Gross profit, adjusted	2,790.6	2,778.0	0%	2,463.8	2,498.0	(1)%
% margin	86.6%	86.0%		84.9%	85.1%	
Operating profit, adjusted	1,078.7	1,084.0	(0)%	746.6	801.3	(7)%
% margin	33.5%	33.5%		25.7%	27.3%	
Net income, adjusted	864.1	869.3	(1)%	592.7	648.7	(9)%
EPS, adjusted	2.04	2.05	(0)%	1.40	1.51	(7)%

Source: Barclays Research, Bloomberg

WORKDAY (EW/POS, PT \$278)

Backlog Growth Strength Likely to Continue

We like Workday into Q4 earnings. The company has shown solid execution so far this year amidst a challenging IT spend environment, with backlog growth above 20% in each of the last three quarters and 3Q21 growth showing a slight acceleration y/y. We believe investors will be looking for these growth trends to continue as a strong on-cycle earnings season shows an improving spend environment for larger, more complex software solutions. Workday guided to total backlog growth in the range of 14-16% y/y, which is a significant deceleration from Q3 growth of ~23%. Q4 has similar comps compared to Q3, but given a better IT spend environment, we expect Workday to report a solid backlog growth beat. We do not see Workday having another large OM beat, but we think investors will look past this as FY21 guidance implies 660 bps margin expansion y/y. We like the LT Workday story and setup, therefore, we are raising our price target to \$278 (from \$255) based on 12x EV/CY22E Sales (unchanged) and maintain our Equal Weight rating.

- **Favorable Q4 Backlog Growth Setup:** Q4 is typically the largest bookings quarter for WDAY, and consensus expects sequential backlog growth of 8%, which is in-line with guidance, but attainable given the 15% average Q4 q/q backlog growth over the past three years. Workday reported 23% total RPO growth in Q3 (y/y), which was an acceleration compared to 3Q20 (22% y/y) and demonstrated the company's ability to contract new business in the current environment. We expect Workday to continue its total bookings momentum into Q4. If Workday continues its average Q4 sequential RPO growth of 15%, it will beat consensus expectations by 7%.
- **Investment and Absence of One-Time Benefits Makes Another Large OM Beat Unlikely:** Workday has posted large OM margin beats in the past two prints (540 bps in Q2, 510 bps in Q3), but this magnitude of outperformance is unlikely given Workday's determination to resume marketing and brand investment this quarter. Previous quarters this year had one-time benefits such as credits for cancelled events along with Q3 having more back-end-loaded hiring versus expectations. Management guided Q4 OM margin to 15%, and FY21 OM margin to 19%, which is 660bps higher than FY20. We see this expansion as reasonable given WDAY's 330 bps y/y expansion average.

FIGURE 13
Barclays Research vs. Consensus Estimates - Workday

\$, mn	Barclays	Consensus	Difference	Barclays	Consensus	Difference
	4Q 21	4Q 21		1Q 22	1Q 22	
Billings	1,615.3	1,583.9	2%	917.3	948.1	(3)%
Total Bookings	1,779.0	1,835.3	(3)%	1,297.0	1,308.1	(1)%
Subscription Revenue	992.5	994.2	(0)%	1,023.1	1,035.9	(1)%
Services Revenue	122.9	123.7	(1)%	143.3	137.3	4%
Total Revenue	1,115.5	1,115.3	0%	1,166.3	1,164.6	0%
Gross profit, non-GAAP	871.5	868.2	0%	887.5	899.1	(1)%
% margin	78.1%	77.8%		76.1%	77.2%	
Operating profit, adjusted	168.0	170.7	(2)%	143.7	184.4	(22)%
% margin	15.1%	15.3%		12.3%	15.8%	
Net income, adjusted	142.5	141.8	0%	122.8	152.5	(19)%
EPS, adjusted	0.56	0.55	0%	0.48	0.58	(18)%

Source: Barclays Research, Bloomberg

VAR SURVEY

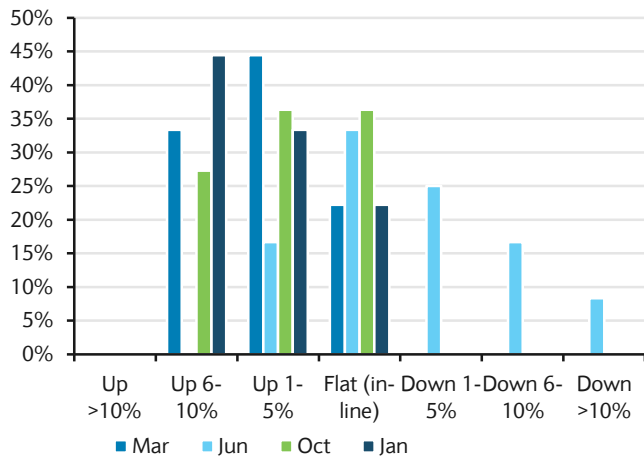
Salesforce: Sequentially Better Channel Performance

Our most recent VAR survey showed a sequential uptick in channel performance this quarter. We polled 9 resellers with collective Salesforce-related revenue of around \$256mn. The first question we asked VARs was how performance compared relative to their internal expectations. The results came in positive overall, with 100% of VARs at or above plan. The responses showed an uptick vs. the last survey, with 78% of resellers noting an outperformance (vs. 64% in the last survey).

Growth expectations for next quarter also showed an uptick, with 56% of resellers looking for 10%+ growth (vs. none in the last survey).

FIGURE 14

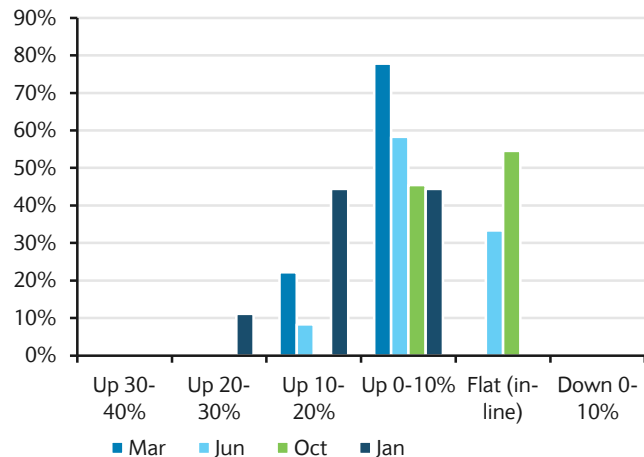
How did your Salesforce business perform in the current quarter vs. expectations?



Source: Barclays Research

FIGURE 15

How do you expect next quarter's growth to compare with last year?

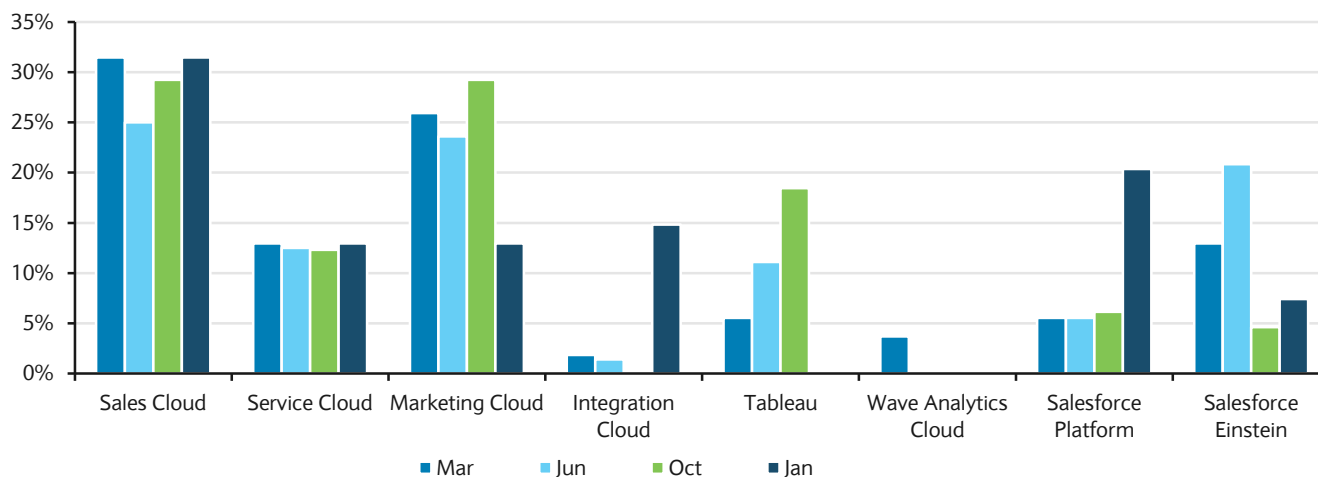


Source: Barclays Research

Next, we asked resellers about customer interest in different Salesforce product segments. We can see that Salesforce platform and Integration Cloud (MuleSoft) saw meaningful upticks in interest, while Marketing Cloud saw a downtick and Tableau saw no customer interest this quarter. Sales Cloud remained the product with the most customer interest and showed a modest uptick vs. the last quarter.

FIGURE 16

In which Salesforce product areas do you see the most interest?

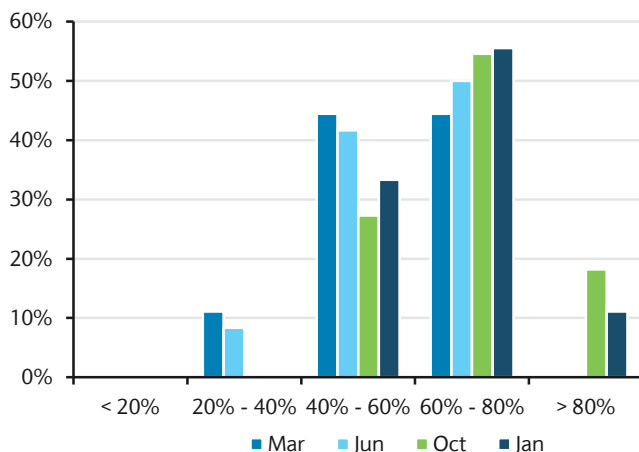


Source: Barclays Research

We also asked survey respondents about penetration for Sales and Service Cloud in more detail. For Sales Cloud, we saw penetration levels modestly decrease with 67% of resellers noting >60% penetration within the customer base (vs. 73% last quarter). Service Cloud saw increasing penetration levels, with 78% of resellers indicating >20% penetration levels within the customer base (vs. 73% last quarter).

FIGURE 17

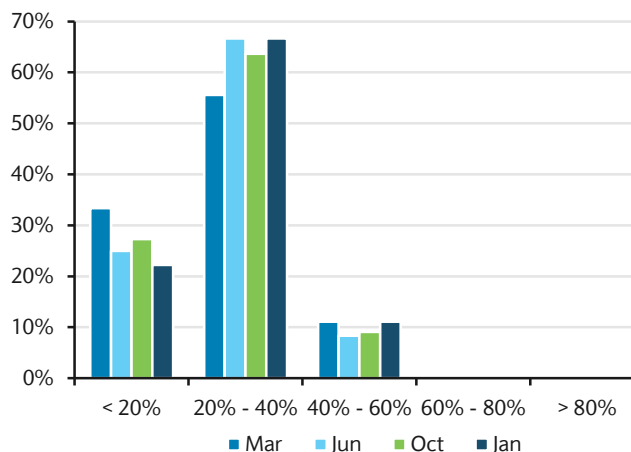
What is your estimate of the penetration of Sales Cloud within your customer base?



Source: Barclays Research

FIGURE 18

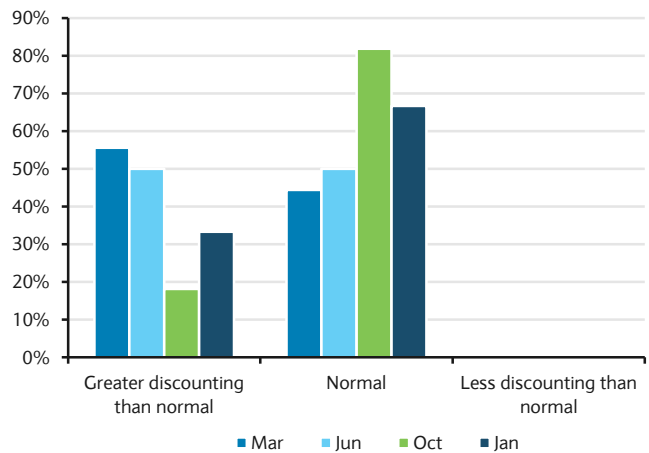
What is your estimate of the penetration of Service Cloud within your customer base?



Source: Barclays Research

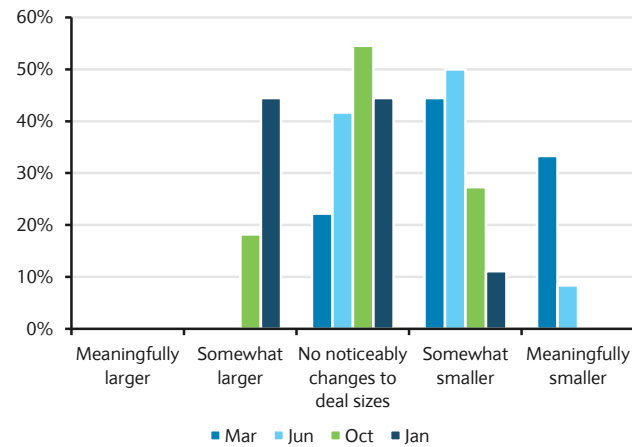
We highlight discounting and deal size changes over the last three months in the figures below. This quarter saw an uptick in discounting levels with 33% of the respondents noting greater than normal discounting (vs. 18% in the last survey). Average deal sizes ticked higher vs. the last survey, with 44% of resellers noting somewhat larger deal sizes (vs. 18% in the last survey).

FIGURE 19
How was the discounting environment for Salesforce for the prior three months?



Source: Barclays Research

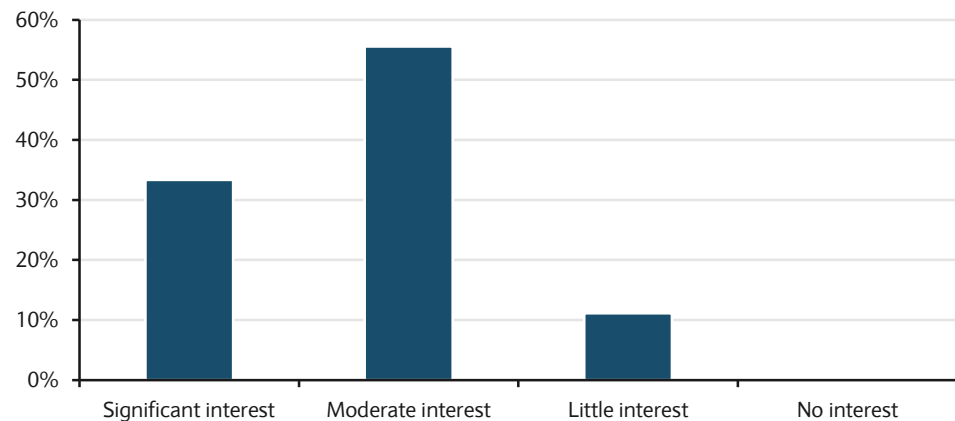
FIGURE 20
How have average deal sizes changed over the past 3 months?



Source: Barclays Research

Finally, we have also added a question around the potential cross-sell opportunity with Slack. We asked VARs about the initial customer interest they have seen from CRM customers looking to adopt Slack or grow their footprint with Slack. Results came back positive, with 89% of resellers seeing moderate to significant interest. We will continue to monitor the trend here in the future surveys.

FIGURE 21
How much initial customer interest have you seen from CRM customers to adopt Slack or grow their footprint with Slack?



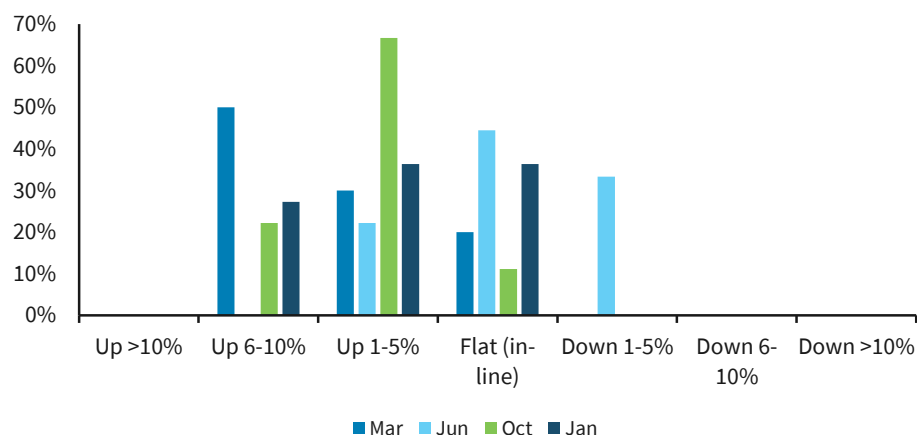
Source: Barclays Research

Splunk – Q4 Demand Snapping Back

We surveyed 11 VARs that generate just around \$328mn in annual business for Splunk. We have adjusted the timing of Splunk's survey to coincide with the fiscal quarter month, so the comparable data will be slightly mismatched. The first question we asked the partners was how performance compared to internal expectations. The results showed that 100% of resellers reported in-line or better-than-expected performance this quarter, similar to the previous survey.

FIGURE 22

How did your Splunk business perform in the current quarter vs. expectations?

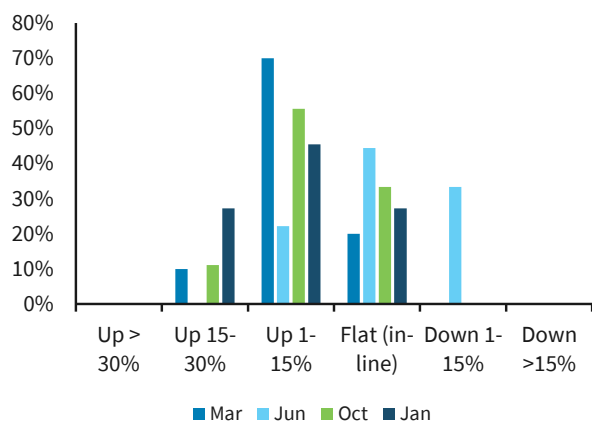


Source: Barclays Research

We next asked resellers what the growth rate for their Splunk business over the prior three months was and what they expect growth to be for the next three months on y/y basis. Once again, 100% of resellers noted flat or positive growth for the current quarter. Resellers see the next quarter with all 100% seeing in line to positive growth, but with a higher outperformance.

FIGURE 23

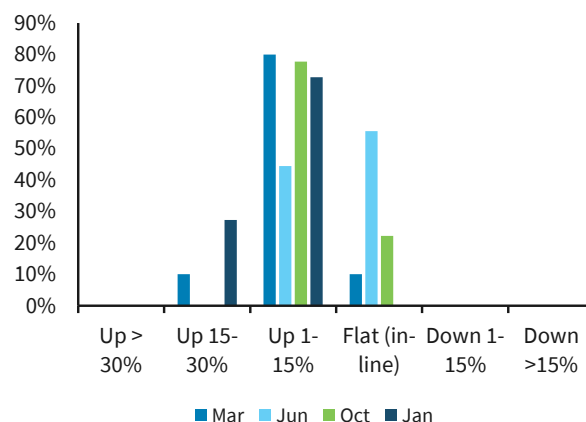
What was the growth of your Splunk business, y/y, for the prior 3 months?



Source: Barclays Research

FIGURE 24

What are your Splunk sales expected to be based on customer interest and activity, y/y, for the next 3 months?

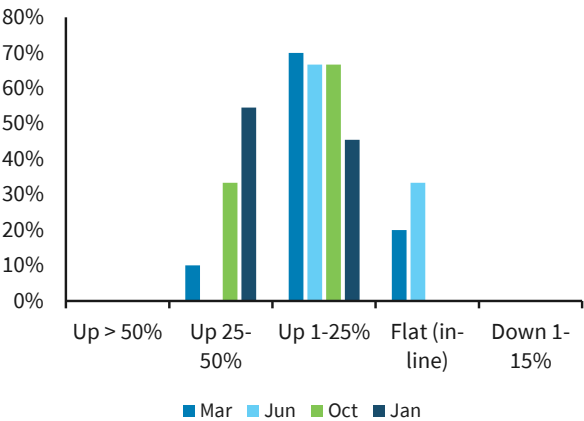


Source: Barclays Research

Next, we asked a similar question regarding Splunk's cloud business. Resellers reported similar results, with growth picking up again in the January quarter. Similarly, next quarter

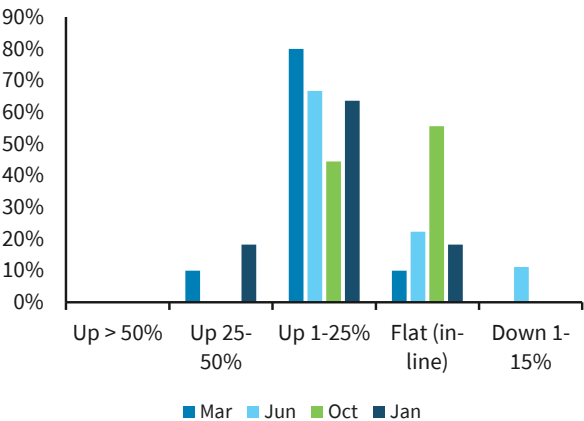
looks incrementally positive as well. 18% of resellers are expecting growth of 25-50%, versus 0% in the previous 2 quarters.

FIGURE 25
What was the growth of your Splunk Cloud business, y/y, for the prior 3 months?



Source: Barclays Research

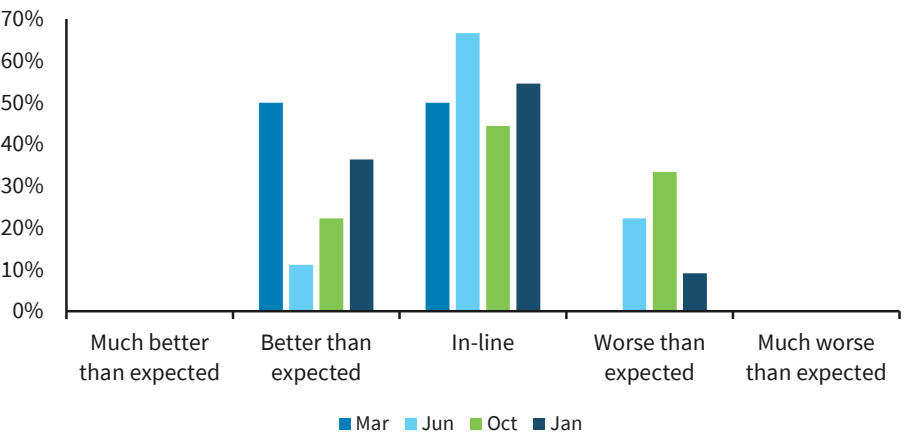
FIGURE 26
What are your Splunk Cloud sales expected to be based on customer interest and activity, y/y, for the next 3 months?



Source: Barclays Research

On large deal activity (>\$100k), 36% of VARs saw somewhat larger deal sizes and only 9% seeing deal sizes that are worse than expected. This is a big improvement from the prior quarter.

FIGURE 27
How did large deal activity (deals over \$100k) come in vs. your expectations for the past 3 months?

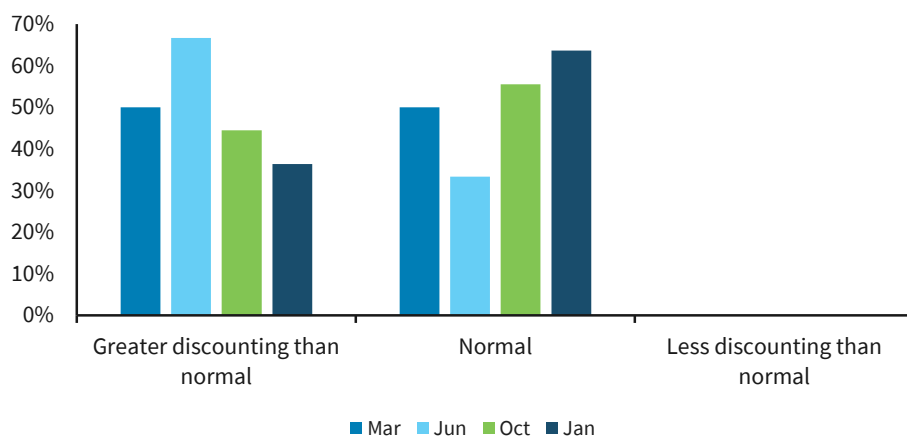


Source: Barclays Research

Then, we looked into the discounting environment. 36% of resellers saw greater discounting levels than normal, with the rest of the 64% seeing normal amount of discounting. Consistent with all the other datapoints in this survey, this is yet another sequential improvement.

FIGURE 28

How was the discounting environment for Splunk for the prior three months?

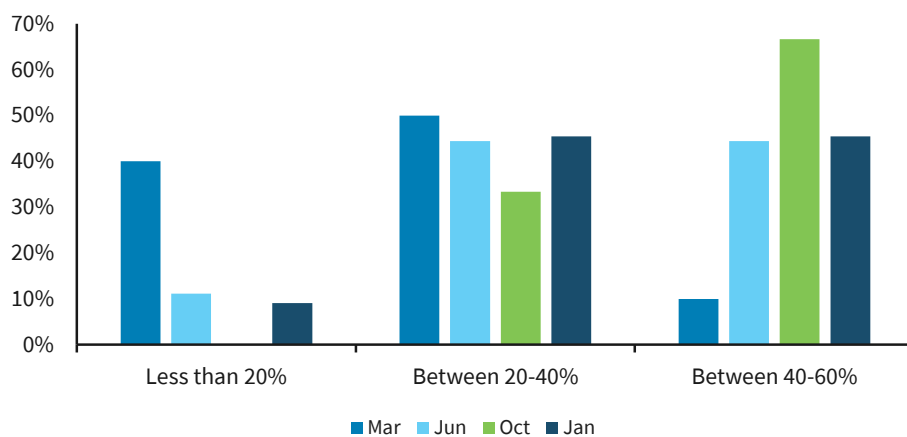


Source: Barclays Research

To gain some context around the pricing environment, we followed up customer adoption of the new pricing model. Here, data consistently shows that new pricing models are still in transition and consistent with prior surveys.

FIGURE 29

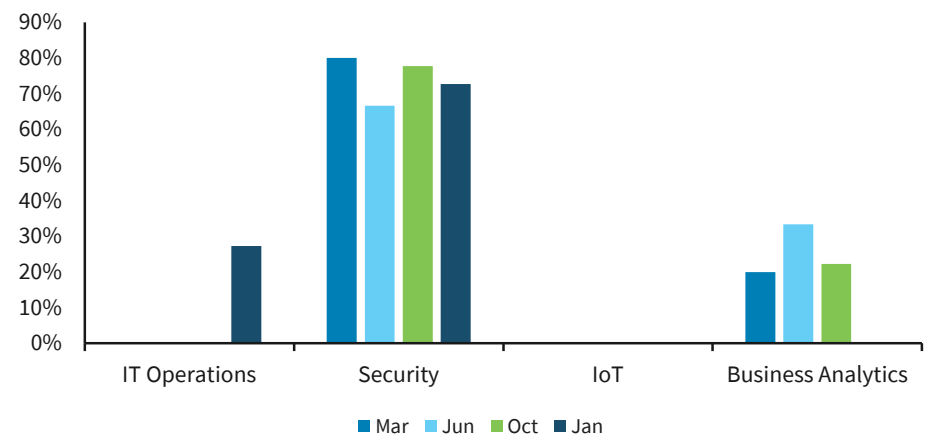
What % of customers are opting for new pricing structure (Infrastructure based, Predictive pricing on tiers, and Rapid Adoption)?e



Source: Barclays Research

Our next few questions focused on the broader picture and competitive dynamics. First, we asked about the use cases for Splunk. 73% of the resellers see security as the main use case, consistent with our prior surveys.

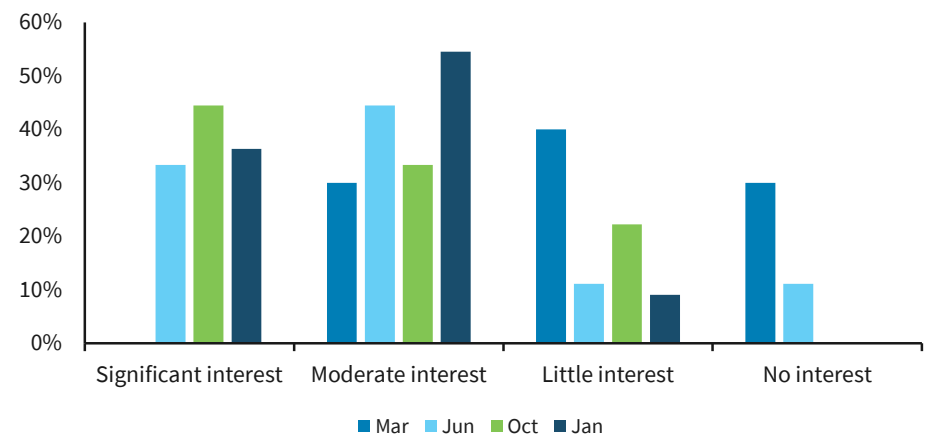
FIGURE 30
Which use case from Splunk are you seeing the most interest from customers?



Source: Barclays Research

Another bright spot to the VAR survey this quarter is on Observability and SignalFx. Since Splunk is embarking on the theme of Observability, we asked if SignalFx is starting to see customer interest. 91% of resellers saw significant to moderate interest, compared to 78% the previous two surveys.

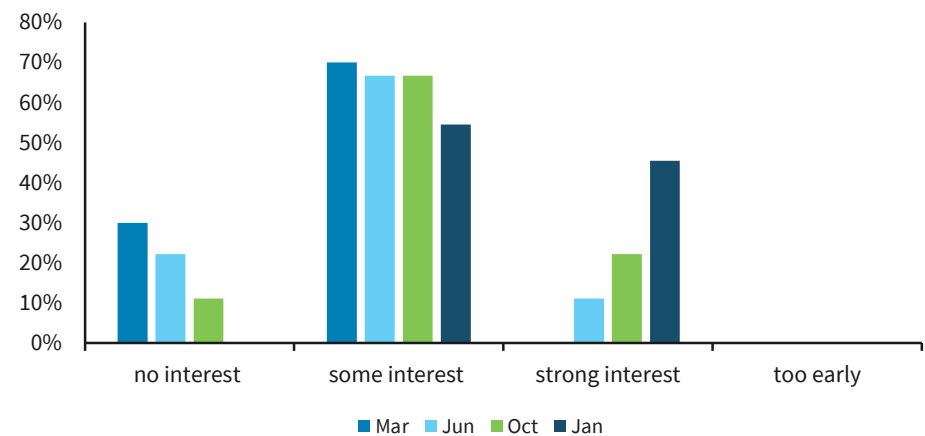
FIGURE 31
How much customer interest do you receive regarding SignalFx?



Source: Barclays research

We also asked if customers are moving towards a uniform monitoring landscape and if the theme of Observability is becoming a reality. Here, 45% of the respondents saw strong interest, compared to 22% in the last survey. The Observability as a theme is still in the early stages, but traction is clearly increasing.

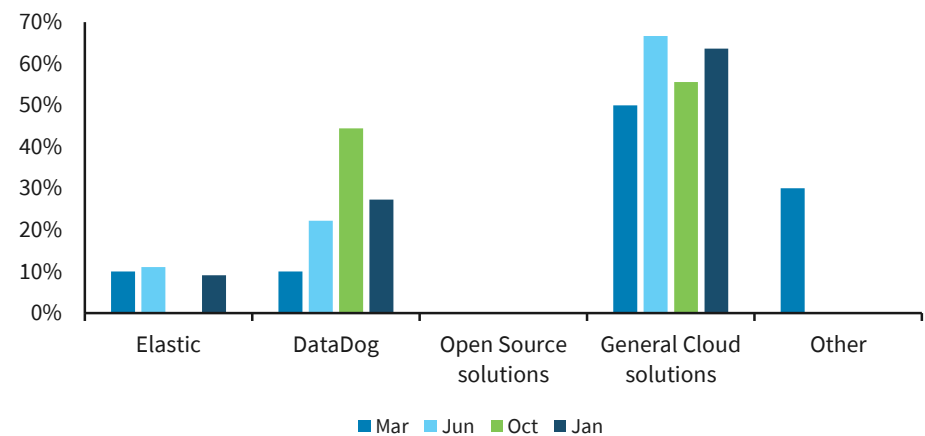
FIGURE 32
What is the customer interest to move to a uniform monitoring landscape



Source: Barclays research

Finally, we asked about the competitive landscape and what vendors are seen to be biggest threats to Splunk. Here, the competitive threats from cloud vendors continues to expand.

FIGURE 33
What vendor do you see as the most competitive threat to Splunk?



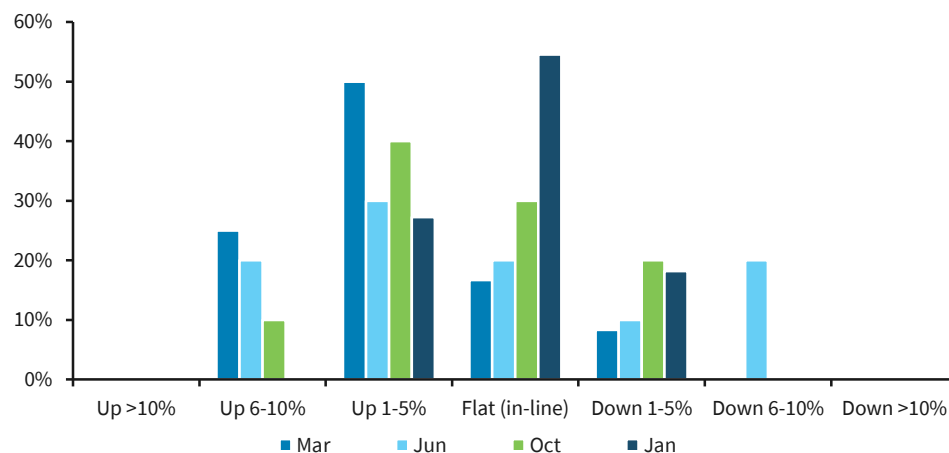
Source: Barclays research

VMware: Another Sequential Uptick

This quarter, we surveyed 11 channel partners that generate approximately \$1.2 billion in annual business for VMware. Our survey results showed an overall uptick in channel performance vs. expectations this quarter. The first question we asked the partners was how performance compared to internal expectations, or plan. The results showed a downtick in respondents that had a better than expected quarter (27% vs. 50% last quarter), but there was also a slight downtick in those that had a worse than expected quarter (18% vs. 20% in the October quarter).

FIGURE 34

How did your VMware business perform in the current quarter vs. expectations?

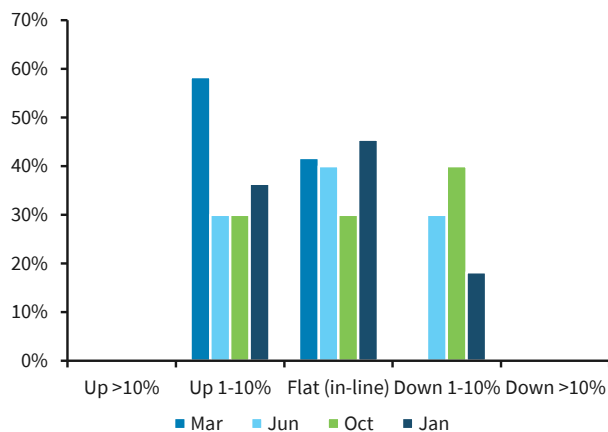


Source: Barclays Research

We next asked resellers what the growth rate for their VMware business over the prior three months was and what they expect growth to be for the next three months. Prior three months' growth showed an uptick vs. the October survey with 82% of resellers noting flat or positive growth this quarter vs. 60% in the October survey. Expectations for next quarter also ticked higher, with 64% of respondents expecting some growth (vs. 50% in the October survey).

FIGURE 35

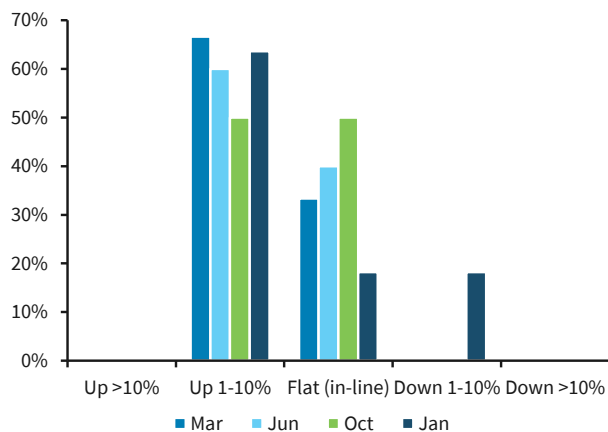
What was the growth of your VMware business, y/y, for the prior 3 months?



Source: Barclays Research

FIGURE 36

What are your VMware license sales expected to be based on customer interest and activity, y/y, for the next 3 months?

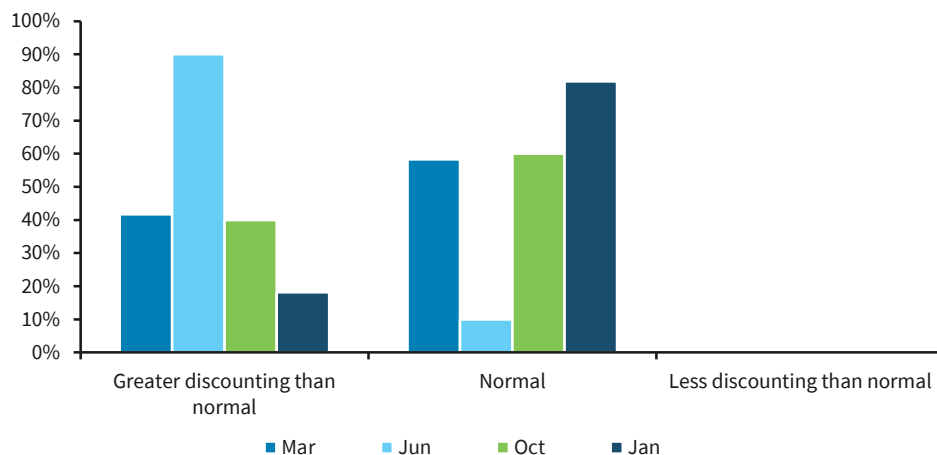


Source: Barclays Research

We also highlight discounting and deal size changes over the last three months in the figures below. Resellers indicated discounting levels continued to normalize this quarter vs. the October survey with 82% of resellers citing a normal discounting environment (vs. 60% in the prior quarter).

FIGURE 37

How was the discounting environment for VMware for the prior three months?

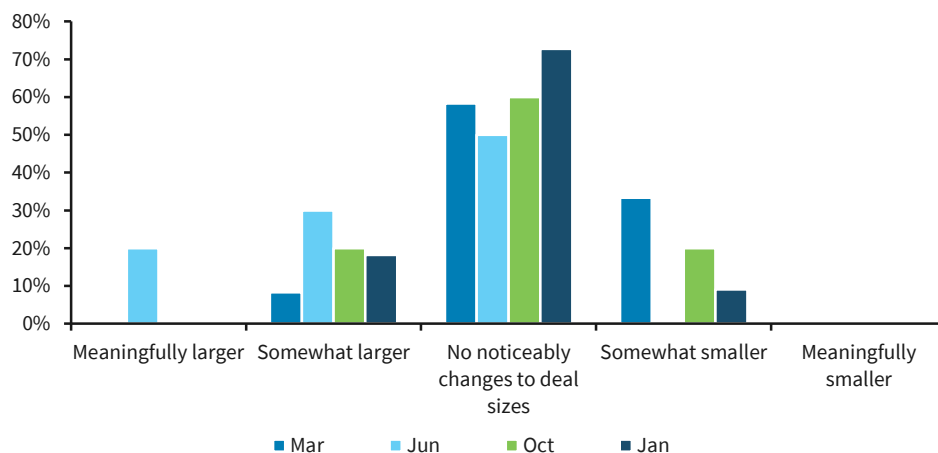


Source: Barclays Research

On deal sizes, 18% of VARs saw larger deal sizes vs. 20% in the October survey. We also note that 73% of respondents indicated no noticeable changes to deal sizes (vs. 60% in the October survey), and 9% saw somewhat smaller deal sizes (vs. 20% in the prior survey).

FIGURE 38

How have average deal sizes changed over the past 3 months?

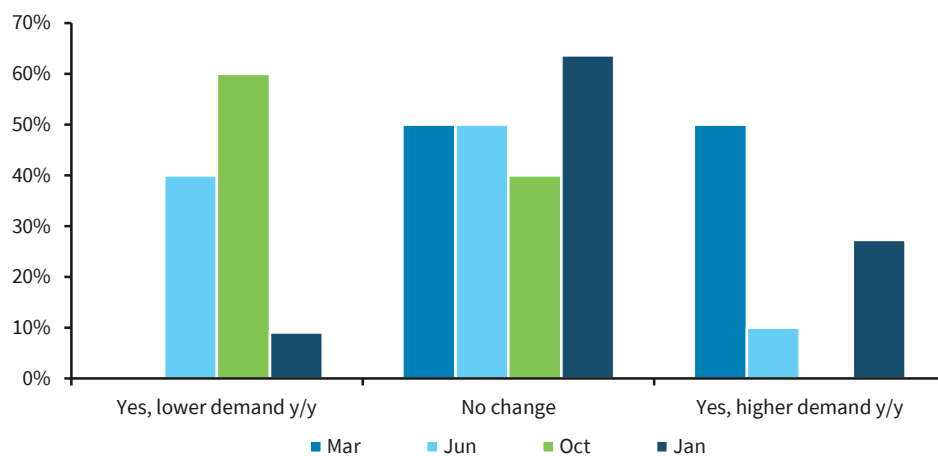


Source: Barclays Research

We asked if there has been a noticeable change in demand for vSphere. Results came in better this quarter, with 27% of VARs noting higher y/y demand (vs. 0% in the October survey) and only 9% seeing lower demand (vs. 60% prior).

FIGURE 39

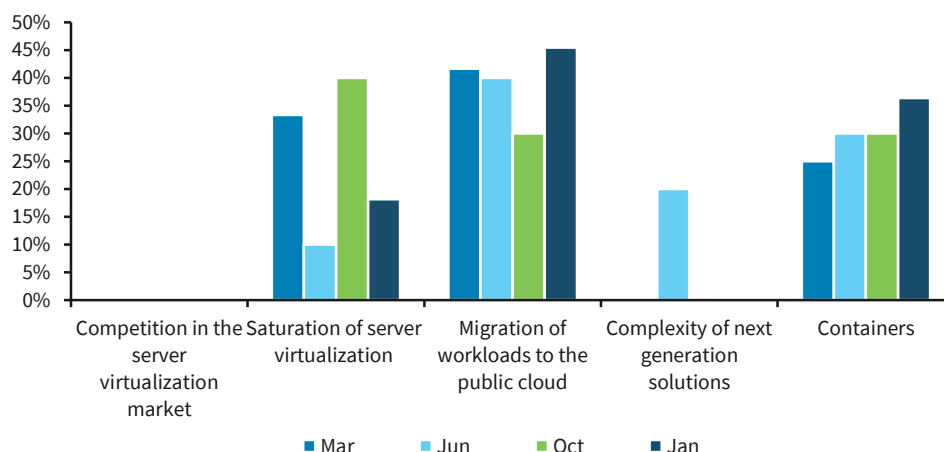
Has there been a change y/y in demand for core vSphere in the server virtualization market?



Source: Barclays Research

We also asked resellers what they viewed as the biggest threat to VMware's growth longer term. 45% of VARs pointed that the biggest threat to VMware's growth migration of workloads to the public cloud (vs. 30% in the October survey). 36% of the VARs highlighted containers as the biggest threat (vs. 30% in the prior survey), while the remaining 18% cited saturation of server virtualization (vs. 40% in the October survey).

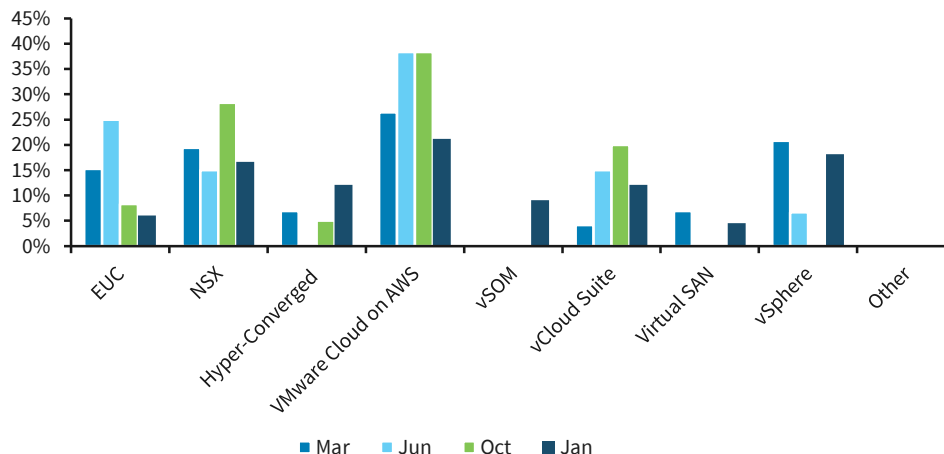
FIGURE 40

What do you feel is the biggest threat to VMware's growth?

Source: Barclays Research

We asked the channel partners in what products customers are showing the most interest. VMware on AWS remained the product with most customer interest (demonstrating VMW's attractive hybrid cloud positioning driven by VMW on AWS), and there was also a material uptick in vSphere this quarter. However, we note a downtick in interest in NSX this quarter after an uptick last quarter.

FIGURE 41

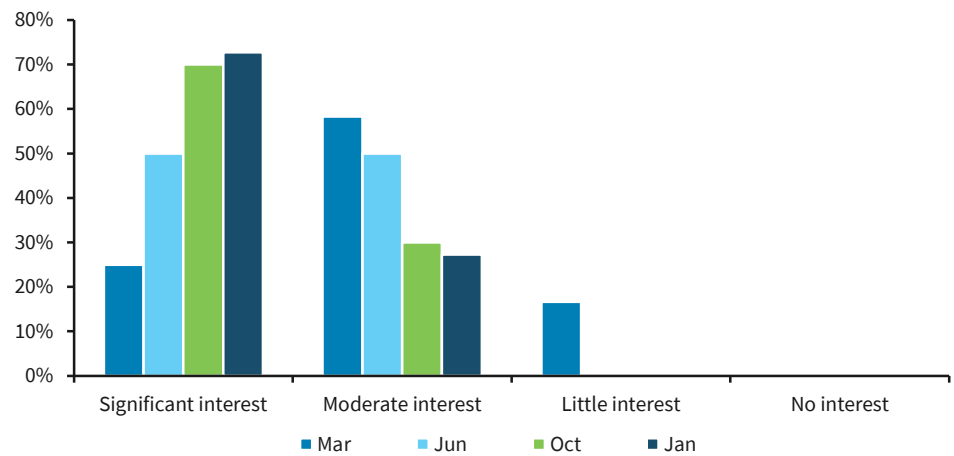
Which products area are customers showing most interest in?

Source: Barclays Research

Next, we asked resellers about customer interest in the VMware Cloud on AWS offering. The interest levels stayed high and showed a sequential uptick vs. the October survey, with 100% of respondents noting significant or moderate interest in the product (same as October quarter), and 73% noting significant interest (vs. 70% in the October survey). We would expect increased customer interest, along with continued data center roll-out, to translate into healthy customer adoption for the product in the coming quarters.

FIGURE 42

How much customer interest did you receive for the VMware Cloud on AWS offering?



Source: Barclays Research

U.S. Software

Industry View: POSITIVE

VMware Inc. (VMW)

Stock Rating: OVERWEIGHT

Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR
Revenue	10,811	11,697	12,623	13,846	8.6%
EBITDA (adj)	3,838	4,311	3,802	4,418	4.8%
Operating profit (adj)	3,261	3,735	3,548	4,151	8.4%
Pre-tax income	1,437	2,043	1,705	2,236	15.9%
Net income (adj)	2,655	2,974	2,842	3,349	8.0%
EPS (adj) (\$)	6.24	7.03	6.76	8.03	8.8%
Diluted shares (mn)	425.2	422.8	420.9	416.9	-0.7%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	35.5	36.9	30.1	31.9	33.6
Operating margin (adj) (%)	30.2	31.9	28.1	30.0	30.0
Pre-tax margin (%)	13.3	17.5	13.5	16.1	15.1
Net (adj) margin (%)	24.6	25.4	22.5	24.2	24.2
ROIC (%)	16.7	18.6	14.6	15.9	16.4
ROA (%)	29.2	6.5	4.7	5.7	11.5
ROE (%)	144.5	22.4	14.7	16.4	49.5

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	3,546	4,004	4,065	4,143	5.3%
Goodwill	9,329	9,477	9,149	8,821	-1.8%
Cash and equivalents	2,915	4,198	6,787	10,069	51.2%
Total assets	26,294	28,936	31,515	34,618	9.6%
Short and long-term debt	270	270	270	270	0.0%
Other long-term liabilities	8,691	11,408	11,791	12,138	11.8%
Total liabilities	19,285	19,943	21,054	22,172	4.8%
Net debt/(funds)	2,833	787	-1,802	-5,084	N/A
Shareholders' equity	7,009	8,994	10,460	12,445	21.1%
Change in working capital	936	53	855	1,047	3.8%
Cash flow from operations	3,872	3,743	4,105	4,828	7.6%
Capital expenditure	-280	-305	-316	-346	N/A
Free cash flow	3,592	3,438	3,790	4,482	7.7%

Valuation and leverage metrics	Average				
P/E (adj) (x)	22.6	20.1	20.9	17.6	20.3
EV/sales (x)	5.8	5.4	5.0	4.6	5.2
EV/EBITDA (adj) (x)	16.4	14.6	16.6	14.3	15.5
Equity FCF yield (%)	6.0	5.8	6.4	7.6	6.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	0.7	0.2	-0.5	-1.2	-0.2
Total debt/capital (%)	3.7	2.9	2.5	2.1	2.8

Selected operating metrics (\$mn)	CAGR				
License revenue	3,181	2,968	2,918	2,976	-2.2%
Maintenance revenue	0	5,106	5,394	5,771	N/A
Services revenue	0	1,032	1,079	1,154	N/A
Deferred revenue	9,268	9,970	10,823	11,593	7.7%

Price (17-Feb-2021) USD 141.31
 Price Target USD 180.00

Why Overweight? Leadership in the server virtualization market, a large installed base and strategic partnership with AWS should allow VMW to garner a disproportionate share of incremental IT spend in hybrid cloud environments. Bookings diversification from emerging products should continue contributing to growth.

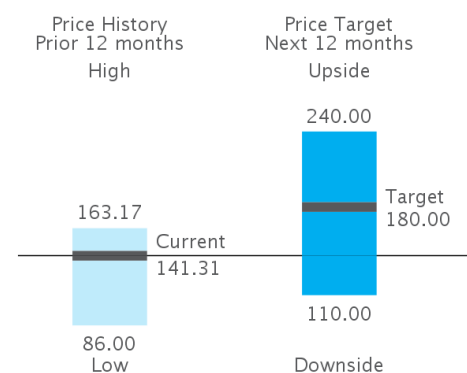
Upside case USD 240.00

Newer products grow faster than expected. VMware offers nested hypervisor solution and compute licenses continue to outperform in the long-term.

Downside case USD 110.00

Maintenance churn rates increase due to a faster than expected shift to the public cloud. Newer products fail to gain additional traction. Dell decides to create joint ventures with VMware that are unattractive.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
 Note: FY End Jan

U.S. Software						Industry View: POSITIVE
Anaplan, Inc. (PLAN)						Stock Rating: EQUAL WEIGHT
Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR	Price (17-Feb-2021) USD 83.47
Revenue	348	444	550	705	26.5%	Price Target USD 80.00
EBITDA (adj)	-38	-19	-11	12	N/A	Why Equal Weight? Anaplan is well positioned to take market share from legacy competitors, but valuation levels leave little room for error. While we like the company longer-term, we stay on the sidelines till we see valuation levels normalize.
Operating profit (adj)	-59	-42	-40	-17	N/A	
Pre-tax income	-145	-150	-167	-175	N/A	
Net income (adj)	-67	-49	-45	-18	N/A	
EPS (adj) (\$)	-0.52	-0.35	-0.30	-0.12	N/A	
Diluted shares (mn)	153.7	158.0	164.4	171.1	3.6%	
DPS (\$)	0.00	0.00	0.00	0.00	N/A	Upside case USD 102.00
Margin and return data						Connected planning momentum accelerates and Anaplan takes incremental share in the next gen planning market. Our upside case is based on CY22 sales that are 10% higher and a 20x multiple.
					Average	
EBITDA (adj) margin (%)	-10.8	-4.2	-2.0	1.7	-3.8	Downside case USD 49.00
Operating margin (adj) (%)	-17.0	-9.5	-7.3	-2.4	-9.0	
Pre-tax margin (%)	-41.6	-33.7	-30.3	-24.8	-32.6	
Net (adj) margin (%)	-19.4	-11.1	-8.1	-2.6	-10.3	
ROIC (%)	-55.0	-63.1	-82.8	-88.7	-72.4	
ROA (%)	-10.4	-7.0	-5.8	-2.1	-6.3	
ROE (%)	-23.1	-18.7	-20.4	-9.1	-17.8	Momentum for cloud-based solutions slows due to privacy concerns, and Anaplan's NER materially slows. Our downside case is based on 12x CY22 sales and a 10% discount to estimates.
Balance sheet and cash flow (\$mn)						Upside/Downside scenarios
					CAGR	
Net PP&E	49	53	52	56	4.6%	Price History Prior 12 months High Price Target Next 12 months Upside 86.17 Current 83.47 102.00 Target 80.00 26.04 Low 49.00 Downside
Goodwill	0	0	0	0	N/A	
Cash and equivalents	310	300	290	320	1.1%	
Total assets	650	705	773	875	10.4%	
Short and long-term debt	0	0	0	0	N/A	
Other long-term liabilities	12	33	39	47	56.4%	
Total liabilities	358	443	553	676	23.6%	
Net debt/(funds)	-310	-300	-290	-320	N/A	
Shareholders' equity	292	263	219	199	-11.9%	
Change in working capital	13	-2	27	19	13.8%	
Cash flow from operations	-14	-6	6	52	N/A	
Capital expenditure	-4	-11	-17	-21	N/A	
Free cash flow	-63	-25	-10	30	N/A	
Valuation and leverage metrics						Average
P/E (adj) (x)	N/A	N/A	N/A	N/A	N/A	
EV/sales (x)	37.3	29.2	23.6	18.4	27.1	
EV/EBITDA (adj) (x)	-345.6	-699.8	-1,157.1	1,061.6	-285.2	
Equity FCF yield (%)	-0.5	-0.2	-0.1	0.2	-0.1	
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	
Net debt/EBITDA (adj) (x)	0.0	0.0	0.0	0.0	0.0	
Total debt/capital (%)	0.0	0.0	0.0	0.0	0.0	
Selected operating metrics (\$mn)						CAGR
Deferred revenue	220	278	363	455	27.4%	

Source: Company data, Bloomberg, Barclays Research

Note: FY End Jan

U.S. Software	Industry View: POSITIVE
Cloudera, Inc. (CLDR)	Stock Rating: EQUAL WEIGHT

Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR
Revenue	794	864	980	1,092	11.2%
EBITDA (adj)	98	225	329	501	72.0%
Operating profit (adj)	-39	133	175	231	N/A
Pre-tax income	-328	-135	-150	-7	N/A
Net income (adj)	-36	129	177	233	N/A
EPS (adj) (\$)	-0.13	0.41	0.54	0.71	N/A
Diluted shares (mn)	359.1	359.1	359.1	359.1	0.0%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	12.4	26.1	33.5	45.8	29.5
Operating margin (adj) (%)	-5.0	15.4	17.9	21.1	12.3
Pre-tax margin (%)	-41.3	-15.6	-15.3	-0.7	-18.2
Net (adj) margin (%)	-4.6	15.0	18.1	21.3	12.4
ROIC (%)	0.0	0.0	0.0	0.0	0.0
ROA (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	0.0	0.0	0.0	0.0	0.0

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	22	20	9	9	-26.4%
Goodwill	590	599	599	599	0.5%
Cash and equivalents	108	551	718	930	105.2%
Total assets	2,300	2,748	2,833	2,871	7.7%
Short and long-term debt	0	0	0	0	N/A
Other long-term liabilities	200	182	182	182	-3.2%
Total liabilities	861	1,285	1,325	1,388	17.2%
Net debt/(funds)	-361	-898	-1,044	-1,236	N/A
Shareholders' equity	1,438	1,462	1,508	1,483	1.0%
Change in working capital	-104	-109	-42	-40	N/A
Cash flow from operations	-37	124	157	204	N/A
Capital expenditure	-7	-10	-11	-12	N/A
Free cash flow	-44	115	146	192	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	N/A	45.1	34.0	26.2	35.1
EV/sales (x)	7.8	7.2	6.3	5.7	6.8
EV/EBITDA (adj) (x)	63.1	27.5	18.9	12.4	30.5
Equity FCF yield (%)	-0.7	1.7	2.2	2.9	1.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	0.0	0.0	0.0	0.0	0.0
Total debt/capital (%)	0.0	0.0	0.0	0.0	0.0

Selected operating metrics (\$mn)	CAGR				
Deferred revenue	542	553	595	647	6.1%

Price (17-Feb-2021)	USD 18.49
Price Target	USD 19.00

Why Equal Weight? The merger with Hortonworks should continue to drive cost synergies and help the company compete in the big data analytics space. However, we believe that Cloudera needs to reinvent itself towards higher value services and compete with a crowded cloud native space, which could prove to be challenging.

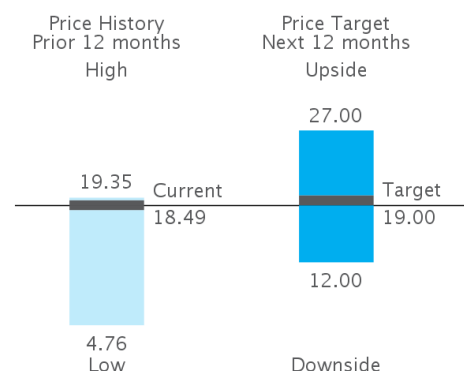
Upside case	USD 27.00
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Our bull case is predicated on the company being able to achieve greater synergies post the merger, while also executing better than we expect on its long-term strategy. We assign a 7x multiple and increase our CY22 revenue estimate by 20%.

Downside case	USD 12.00
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Our bear case is predicated on the company achieving less synergies post the merger, while also not being able to properly adapt to the changes in the big data market. We assign a 3x multiple and take down our CY22 revenue estimate by 20%.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Jan

U.S. Software	Industry View: POSITIVE
Intuit Inc. (INTU)	Stock Rating: OVERWEIGHT

Income statement (\$mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	6,783	7,679	8,971	10,143	14.4%
EBITDA (adj)	2,482	2,856	3,252	3,840	15.7%
Operating profit (adj)	2,282	2,668	3,040	3,622	16.7%
Pre-tax income	1,881	2,198	1,957	3,036	17.3%
Net income (adj)	1,782	2,075	2,292	2,753	15.6%
EPS (adj) (\$)	6.78	7.86	8.39	10.08	14.2%
Diluted shares (mn)	263.0	264.0	273.2	273.2	1.3%
DPS (\$)	1.88	2.12	2.36	2.60	11.4%

Margin and return data	Average				
EBITDA (adj) margin (%)	36.6	37.2	36.3	37.9	37.0
Operating margin (adj) (%)	33.6	34.7	33.9	35.7	34.5
Pre-tax margin (%)	27.7	28.6	21.8	29.9	27.0
Net (adj) margin (%)	26.3	27.0	25.5	27.1	26.5
ROIC (%)	34.1	19.8	12.1	17.2	20.8
ROA (%)	28.4	19.0	15.4	17.0	19.9
ROE (%)	47.5	40.6	22.9	24.6	33.9

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	780	734	696	648	-6.0%
Goodwill	1,655	1,654	8,607	8,563	73.0%
Cash and equivalents	2,116	6,442	3,476	4,874	32.1%
Total assets	6,283	10,931	14,879	16,231	37.2%
Short and long-term debt	436	3,369	2,357	2,357	75.5%
Other long-term liabilities	145	42	50	50	-29.9%
Total liabilities	2,534	5,825	4,887	5,036	25.7%
Net debt/(funds)	-2,317	-3,700	-1,766	-3,164	N/A
Shareholders' equity	3,749	5,106	9,992	11,196	44.0%
Change in working capital	133	48	-10	104	-8.0%
Cash flow from operations	2,324	2,414	2,856	3,274	12.1%
Capital expenditure	-155	-137	-165	-170	N/A
Free cash flow	2,169	2,277	2,692	3,104	12.7%

Valuation and leverage metrics	Average				
P/E (adj) (x)	61.4	52.9	49.6	41.3	51.3
EV/sales (x)	16.6	14.5	12.7	11.1	13.7
EV/EBITDA (adj) (x)	45.5	39.1	34.9	29.2	37.2
Equity FCF yield (%)	2.0	2.1	2.4	2.7	2.3
Dividend yield (%)	0.5	0.5	0.6	0.6	0.5
Net debt/EBITDA (adj) (x)	-0.9	-1.3	-0.5	-0.8	-0.9
Total debt/capital (%)	10.4	39.8	19.1	17.4	21.7

Selected operating metrics (\$mn)	CAGR				
Deferred revenue	619	652	716	769	7.5%

Price (17-Feb-2021)	USD 415.81
Price Target	USD 480.00

Why Overweight? The transition to SaaS product delivery has paid off and the SaaS business is now the majority revenue contributor, which should continue to push total revenue growth higher. However, Intuit trades at a high valuation given its EPS growth

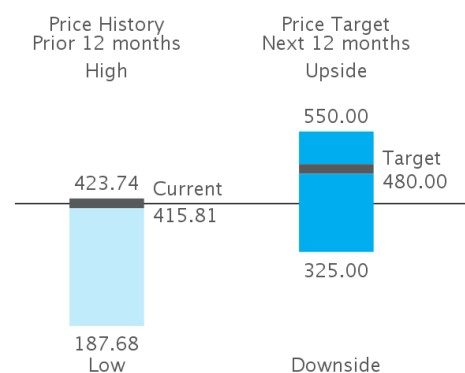
Upside case	USD 550.00
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The cross-selling opportunity is large given the large installed base. Growth here could easily exceed expectations. Intuit realized significant pricing power for Desktop customers, while QBO subs and ARPU exceed expectations. Tax takes greater share than expected.

Downside case	USD 325.00
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The legacy desktop products could decline much more quickly than we expect; misexecution and weak demand remain risks. Tax product stumbles.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Jul

U.S. Software						Industry View: POSITIVE	
Open Text Corp. (OTEX)						Stock Rating: OVERWEIGHT	
Income statement (\$mn)						Price (17-Feb-2021)	USD 46.91
Revenue	3,110	3,296	3,504	3,716	6.1%	Price Target	USD 55.00
EBITDA (adj)	1,148	1,242	1,329	1,434	7.7%	Why Overweight? With a strengthening product portfolio, we believe OTEX will outgrow the market and gain share over the medium-to-long term. While valuation tends to be the primary pushback, we think OTEX's healthier growth and high margins warrant a better multiple.	
Operating profit (adj)	1,059	1,154	1,224	1,322	7.7%		
Pre-tax income	345	517	756	993	42.2%		
Tax rate (%)	14	14	14	14	0.0%		
Net income (adj)	785	868	911	996	8.3%		
EPS (adj) (\$)	2.88	3.20	3.37	3.67	8.4%	Upside case USD 69.00 Macro pressures ease earlier than anticipated and the geopolitical environment improves, leading to faster organic growth. In addition, management is able to rapidly deploy capital in more accretive acquisition opportunities.	
Diluted shares (mn)	272.4	271.7	270.1	271.1	-0.1%		
DPS (\$)	2.79	3.00	3.45	3.97	12.4%	Downside case USD 36.00 Ongoing macro pressures and geopolitical uncertainties persist, causing customers to delay buying well into the medium term, pressuring organic growth for longer than anticipated.	
Margin and return data					Average		
EBITDA (adj) margin (%)	36.9	37.7	37.9	38.6	37.8		
Operating margin (adj) (%)	34.0	35.0	34.9	35.6	34.9		
Pre-tax margin (%)	11.1	15.7	21.6	26.7	18.8		
Net (adj) margin (%)	25.2	26.3	26.0	26.8	26.1	Upside/Downside scenarios	
ROIC (%)	14.0	15.9	17.8	19.5	16.8		
ROA (%)	9.1	10.4	10.5	10.6	10.2		
ROE (%)	19.6	22.7	21.9	20.9	21.3		
Balance sheet and cash flow (\$mn)					CAGR		
Tangible fixed assets	245	235	244	253	1.1%	Price History Prior 12 months High Price Target Next 12 months Upside 69.00 Target 55.00 Current 46.91 36.00 29.11 Low Downside	
Cash and equivalents	1,693	1,673	2,317	3,042	21.6%		
Total assets	10,235	9,734	10,234	10,929	2.2%		
Short and long-term debt	4,194	3,592	3,592	3,592	-5.0%		
Other long-term liabilities	320	212	212	212	-12.8%		
Total liabilities	6,228	5,903	6,072	6,160	-0.4%		
Net debt/(funds)	2,501	1,919	1,274	550	-39.6%		
Shareholders' equity	4,007	3,832	4,162	4,769	6.0%		
Change in working capital	61	218	63	7	-51.8%		
Cash flow from operations	955	1,024	1,079	1,114	5.3%		
Capital expenditure	-73	-75	-114	-121	N/A		
Free cash flow	882	949	966	993	4.1%		
Valuation and leverage metrics					Average		
P/E (adj) (x)	16.3	14.7	13.9	12.8	14.4		
EV/sales (x)	9.9	9.4	8.8	8.3	9.1		
EV/EBITDA (adj) (x)	26.8	24.8	23.2	21.5	24.1		
Equity FCF yield (%)	6.9	7.4	7.6	7.8	7.4		
P/BV (x)	3.2	3.3	3.0	2.7	3.1		
Dividend yield (%)	6.0	6.4	7.4	8.5	7.0		
Total debt/capital (%)	51.1	48.4	46.3	43.0	47.2		
Net debt/EBITDA (adj) (x)	2.2	1.5	1.0	0.4	1.3		
Selected operating metrics (\$mn)					CAGR		
License revenue	403	339	331	333	-6.2%		
Cloud Services Revenue	1,158	1,380	1,577	1,771	15.2%		
Customer Support	1,276	1,320	1,341	1,355	2.0%		
Professional services and other	274	257	255	258	-1.9%		

Source: Company data, Bloomberg, Barclays Research
Note: FY End Jun

U.S. Software	Industry View: POSITIVE
Workday Inc. (WDAY)	Stock Rating: EQUAL WEIGHT

Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR
Revenue	3,627	4,302	4,984	5,893	17.6%
EBITDA (adj)	761	1,101	1,078	1,416	23.0%
Operating profit (adj)	484	824	850	1,136	32.9%
Pre-tax income	-482	-330	-384	-174	N/A
Net income (adj)	463	682	714	946	26.9%
EPS (adj) (\$)	1.89	2.70	2.73	3.50	22.8%
Diluted shares (mn)	245.2	252.7	261.7	270.3	3.3%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	21.0	25.6	21.6	24.0	23.1
Operating margin (adj) (%)	13.4	19.2	17.0	19.3	17.2
Pre-tax margin (%)	-13.3	-7.7	-7.7	-3.0	-7.9
Net (adj) margin (%)	12.8	15.9	14.3	16.1	14.8
ROIC (%)	-19.3	-10.5	-10.1	-3.7	-10.9
ROA (%)	-7.1	-3.9	-4.1	-1.6	-4.2
ROE (%)	-19.3	-10.5	-10.1	-3.7	-10.9

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	936	996	1,116	1,249	10.1%
Goodwill	2,128	2,082	2,082	2,082	-0.7%
Cash and equivalents	731	1,315	2,119	3,181	63.3%
Total assets	6,816	8,438	9,378	10,634	16.0%
Short and long-term debt	0	0	0	0	N/A
Other long-term liabilities	15	19	19	19	7.9%
Total liabilities	4,330	5,257	5,604	6,019	11.6%
Net debt/(funds)	-1,171	-3,586	-4,390	-5,452	N/A
Shareholders' equity	2,487	3,181	3,774	4,615	22.9%
Change in working capital	32	-106	211	256	99.1%
Cash flow from operations	865	1,041	1,153	1,475	19.5%
Capital expenditure	-244	-283	-349	-412	N/A
Free cash flow	512	758	804	1,062	27.5%

Valuation and leverage metrics	Average				
P/E (adj) (x)	N/A	N/A	99.3	77.4	88.3
EV/sales (x)	18.7	15.8	13.6	11.5	14.9
EV/EBITDA (adj) (x)	89.2	61.6	62.9	47.9	65.4
Equity FCF yield (%)	-0.7	-0.3	-1.0	-0.8	-0.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	-11.7	-27.8	-19.7	-11.4	-17.7
Total debt/capital (%)	0.0	0.0	0.0	0.0	0.0

Selected operating metrics (\$mn)	CAGR				
Subscription revenue	3,096	3,775	4,398	5,216	19.0%
Professional services revenue	531	527	586	677	8.4%
Deferred revenue	2,309	2,569	2,798	3,025	9.4%

Price (17-Feb-2021)	USD 271.05
Price Target	USD 278.00

Why Equal Weight? We like Workday's impressive technology and the strength of its product, as well as the very large addressable market size and growth opportunity. However, current valuation is also very high and prices in a lot of market success, in our view.

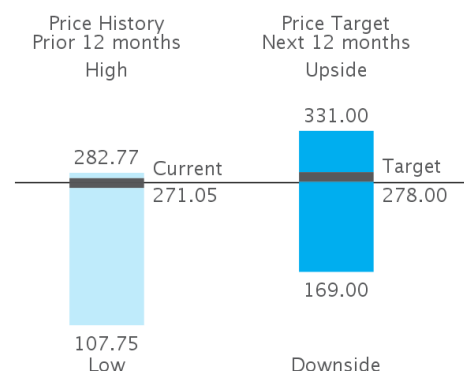
Upside case	USD 331.00
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A positive surprise to the functionality ramp up of the Financial Accounting product could lead to enterprise-level traction here quicker than we expect, creating much higher growth. Our upside case is based on a CY22E EV/Sales of 13x and 10% higher revenue.

Downside case	USD 169.00
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A downside surprise in Workday's expansion across the HCM space and in Financials would reduce the market opportunity and hence the growth rate that Workday could sustain for the next few years. Our downside case is based on a CY22E EV/Sales of 8x and a 10% revenue cut.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Jan

Valuation Methodology and Risks

U.S. Software

Anaplan, Inc. (PLAN)

Valuation Methodology: Our price target of \$80 for PLAN is based on 18x EV/CY21E sales of \$692mn.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Slower than expected migration from legacy systems to the cloud and competitors catching up to Anaplan with platform solutions. Competitor Workday could leverage its salesforce and redesign Adaptive Insights to be more enterprise friendly.

Cloudera, Inc. (CLDR)

Valuation Methodology: Our PT of \$19 is based on 6x CY22 revenues of \$1.08bn.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Cloudera participates in a very competitive and rapidly changing end market. New competitors such as AWS and Azure are threatening to usurp and replace Cloudera.

The market is very competitive and Cloudera is currently not the dominant player when looking at the cloud.

Intuit Inc. (INTU)

Valuation Methodology: Our price target of \$480 is based on 40x EV/FCF and our CY22 FCF estimate of \$3.263bn

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Intuit sources over half of its revenue from the SMB market and the majority of the remainder comes from consumers. If there is a worsening of or continued macro pressure to the SMB space, Intuit's financial performance could be affected. Additionally, the company is subject to changing tax filing regulation. Finally, Intuit could face challenges and headwinds to margins from the integration of Credit Karma in the near-term.

Open Text Corp. (OTEX)

Valuation Methodology: Our price target of \$55 is based on 18x EV/CY22E FCF and a CY22 FCF estimate of \$980mn.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Weakening macroeconomic environment and ongoing political uncertainties cause customers to further delay buying decisions, pressuring organic growth; challenges maintaining and growing its strategic partnerships and channel partners could materially impact the growth outlook; and weaker growth and pressure on margins could cause the valuation multiple to contract.

VMware Inc. (VMW)

Valuation Methodology: Our price target of \$180 is based on CY22 EV/FCF of 18x and CY22 FCF of \$4.42bn.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The shift to public cloud might happen faster than expected, leading to increased churn on vSphere maintenance. Growth products might not sustain their thus far impressive growth as the low hanging fruit is gone. Dell could decide to use VMware to fund joint ventures that are not economically attractive to VMware.

Workday Inc. (WDAY)

Valuation Methodology: Our price target of \$278 is based on EV/Sales of 12x and CY22E revenue of \$5.8bn.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Faster than expected ramp up in its Financial Accounting product's functionality and scalability could lead to faster enterprise traction and ultimately sales revenue than we currently expect. On the downside, failure to gain traction enterprise financials which much of the valuation depends on would cause multiple contraction

Source: Barclays Research.

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We, Raimo Lenschow, CFA and Pree Gadey, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Anaplan, Inc. (PLAN, 17-Feb-2021, USD 83.47), Equal Weight/Positive, CE/J

Cloudera, Inc. (CLDR, 17-Feb-2021, USD 18.49), Equal Weight/Positive, CE/J

Intuit Inc. (INTU, 17-Feb-2021, USD 415.81), Overweight/Positive, A/CD/CE/D/J/K/L/N

Open Text Corp. (OTEX, 17-Feb-2021, USD 46.91), Overweight/Positive, CD/CE/D/E/J/K/L/M

VMware Inc. (VMW, 17-Feb-2021, USD 141.31), Overweight/Positive, A/CD/CE/D/FA/J/K/L/M

Workday Inc. (WDAY, 17-Feb-2021, USD 271.05), Equal Weight/Positive, CD/CE/J

Materially Mentioned Stocks (Ticker, Date, Price)

Coupa Software Inc. (COUP, 17-Feb-2021, USD 359.75), Equal Weight/Positive, A/CD/CE/D/E/J/L

Descartes Systems Group (DSGX, 17-Feb-2021, USD 61.01), Equal Weight/Positive, CE/J

Elastic N.V. (ESTC, 17-Feb-2021, USD 160.25), Overweight/Positive, CE/J

MongoDB, Inc. (MDB, 17-Feb-2021, USD 410.80), Overweight/Positive, CD/CE/D/E/FB/J/L

Salesforce.com Inc. (CRM, 17-Feb-2021, USD 247.66), Overweight/Positive, CD/CE/J/K/M

Snowflake Computing (SNOW, 17-Feb-2021, USD 288.78), Equal Weight/Positive, A/CE/D/J/L

Splunk Inc. (SPLK, 17-Feb-2021, USD 170.50), Overweight/Positive, CD/CE/D/E/J/L

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In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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investment horizon.

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Positive - industry coverage universe fundamentals/valuations are improving.

Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

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Below is the list of companies that constitute the "industry coverage universe":

U.S. Software

Adobe Inc. (ADBE)	Anaplan, Inc. (PLAN)	Ansys, Inc. (ANSS)
Appian Corporation (APPN)	AudioCodes Ltd. (AUDC)	Autodesk Inc. (ADSK)
Avaya Holdings Corp (AVYA)	BigCommerce (BIGC)	Ceridian HCM Holding Inc. (CDAY)
Check Point Software Technologies Ltd. (CHKP)	Citrix Systems (CTXS)	Cloudera, Inc. (CLDR)
Cornerstone OnDemand Inc. (CSOD)	Coupa Software Inc. (COUP)	CrowdStrike Holdings, Inc (CRWD)
CyberArk Software (CYBR)	Datadog, Inc. (DDOG)	Datto Holding Corp. (MSP)
Descartes Systems Group (DSGX)	Duck Creek Technologies, Inc. (DCT)	Dynatrace, Inc. (DT)
Elastic N.V. (ESTC)	FireEye (FEYE)	Five9, Inc. (FIVN)
Fortinet, Inc. (FTNT)	Intuit Inc. (INTU)	J2 Global (JCOM)
Jamf Holding Corp. (JAMF)	Lightspeed POS Inc. (LSPD)	LivePerson, Inc. (LPSN)
Microsoft Corp. (MSFT)	Mimecast Ltd. (MIME)	MongoDB, Inc. (MDB)
nCino, Inc. (NCNO)	New Relic, Inc. (NEWR)	NortonLifeLock (NLOK)
Nuance Communications, Inc. (NUAN)	Open Text Corp. (OTEX)	Oracle Corp. (ORCL)
Palo Alto Networks (PANW)	Paycom (PAYC)	Pegasystems, Inc. (PEGA)
Ping Identity Holding Corp. (PING)	Pluralsight, Inc. (PS)	PTC Inc. (PTC)
Rapid7 (RPD)	Salesforce.com Inc. (CRM)	SAP SE (SAP)
SecureWorks (SCWX)	ServiceNow, Inc. (NOW)	Slack Technologies (WORK)
Snowflake Computing (SNOW)	SolarWinds Corporation (SWI)	Splunk Inc. (SPLK)
Sprout Social, Inc. (SPT)	Talend S.A. (TLND)	Teradata Corp. (TDC)
Tufin Software Technologies (TUFN)	Varonis Systems, Inc. (VRNS)	Veeva Systems Inc. (VEEV)
VMware Inc. (VMW)	Workday Inc. (WDAY)	ZoomInfo Technologies Inc. (ZI)
Zscaler, Inc. (ZS)		

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Barclays Equity Research has 1639 companies under coverage.

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